Optimal operational monetary policy rules in an endogenous growth model: a calibrated analysis

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abstract

This paper constructs an endogenous growth model with sticky prices and wages, and analyzes the effects on the long-run growth rate of monetary policy. We also characterize optimal operational monetary policy rules. Main findings are: i) in deterministic steady state, sticky price distortion has the negative growth and welfare effect and this effect is highly sensitive to the degree of price stickiness, ii) in stochastic environment, the long-run rate of output growth is affected by the monetary stabilization policy rules, especially the policy rule responding to output, iii) the effect of volatility of inflation on long-run growth is not clear because of existence of wage stickiness, and iv) in spite of the results above, the features of the optimal operational policy is not turned from exogenous growth New Keynesian models.

Keywords: Monetary policy, Sticky price and wage, Endogenous growth

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