

First Monetary Policy Research Workshop in Latin America and the Caribbean
“MONETARY POLICY RESPONSE TO SUPPLY AND ASSET PRICE SHOCKS”

Santiago, Chile, November 17 - 18, 2005

Organised by the Central Bank of Chile and the Centre of Central Banking Studies (CCBS) of The Bank of England

The ongoing oil price shock has put under stress monetary policy in all countries, both oil importers and exporters. Higher oil prices and the related uncertainty about their persistence imposes a challenge to central banks, both because of their direct effects on domestic prices and their indirect effects that take place by affecting activity, domestic spending, and labour markets. The oil price shock serves as vivid reminder that the optimal monetary response to supply shocks – stemming from exchange-rate adjustment, commodity prices or production cost shocks – is still controversial and may depend on the structure of the economy and the credibility of monetary policy.

Something similar can be said about asset price shocks, like the housing price and equity price shocks observed in many economies over the recent past. While in this case the transmission mechanisms to inflation differ significantly from supply shocks, and asset price shocks may also have implications for financial stability, the common theme is that monetary policy response to asset price shocks is not obvious either.

The purpose of this First Monetary Policy Workshop in Latin America and the Caribbean on “Monetary Policy Response to Supply and Asset Price Shocks” is to bring together central bank researchers and staff from Latin America and the Caribbean, as well as from England, Canada, the United States and the European Central Bank of England to discuss recent studies and work in progress on these topics. Discussion of theoretical work on optimal monetary policy, cross-country empirical studies, and country-case research and simulations will shed light on the transmission of supply and asset price shocks to the economy, the monetary policy response that the latter should elicit, and how central banks understand and model these shocks for forecasting inflation and making their decisions.

Organizing Committee:

Mario Blejer (Director of the CCBS, BoE)

Klaus Schmidt-Hebbel (Head of Research, Central Bank of Chile)

Rodrigo Fuentes (Senior Economist, Central Bank of Chile)

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Workshop Program

Thursday, November 17th

Inaugural Session

Chair: Jorge Desormeaux

9:00-9:15 Welcoming Remarks
Mario Blejer, Director, Centre of Central Banking Studies, Bank of England
Rodrigo Valdés, Chief Economist, Central Bank of Chile

Keynote Speech

9:15-10:00 **Luis I. Jácome**, (IMF) “The Institutional Reform of Monetary Policy in Latin America”

10:00 -10:30 Coffee Break

Session 1: House Prices and Monetary Policy

Chair: Rodrigo Fuentes

10:30-11:20 Alan G. Ahearne, John Ammer, Brian M. Doyle, Linda S. Kole, and Robert F. Martin (Board of Governors of the Federal Reserve System) “House Prices and Monetary Policy: A cross-country Study”
Discussant: Alejandro Micco (Central Bank of Chile)

11:20-12:10 **Martha López** (Central Bank of Colombia) “House Prices and Monetary Policy in Colombia”
Discussant: Jorge Restrepo (Central Bank of Chile)

12:10-13:00 **Meenakshi Basant Roi and Rhys Mendes** (Bank of Canada) “House Prices and the Optimal Policy Horizon”
Discussant: Philip Brock (University of Washington)

13:00 14:30 Lunch

13:40 **Luncheon Talk**

Chair: Klaus Schmidt-Hebbel

Manuel Marfán, (Member of the Board, Central Bank of Chile) “Non Mainstream Reflections on Policy Responses to Supply and Asset Price Shocks”

Session 2: Real and Monetary Shocks

Chair: Sergio Lehmann

- 14:30-15:20 **Ana M. Aguilar Manuel Ramos-Francia and Alberto Torres** “Cost-Push Shocks and Monetary Policy in the Mexican Economy” (Banco de México)
Discussant: Cristián Echeverría (Central Bank of Chile)
- 15:20-16:10 **Charles L. Evans and David A. Marshall** “Fundamental Economic Shocks and the Macroeconomy” (Federal Reserve Bank of Chicago)
Discussant: Luis Céspedes (Central Bank of Chile)
- 16:10-16:30 Coffee Break

Session 3: Asset Price Shocks and Monetary Policy

Chair: Kevin Cowan

- 16:30-17:20 **Simon Potter** “Consumption and Wealth” (Federal Reserve Bank of New York)
Discussant: Rómulo Chumacero (Central Bank of Chile)
- 17:20-18:10 **Rodrigo Caputo and Felipe Liendo** (Central Bank of Chile) “Monetary Policy, Exchange Rate and Inflation Inertia in Chile: A Structural Approach”
Discussant: Klaus Masuch (European Central Bank)

Friday, November 18th

Session 4: Oil Shocks and Monetary Policy

Chair: Klaus Schmidt-Hebbel

- 9:30-10:20 **Paul Castillo, Carlos Montoro, Vicente Tuesta** (Central Bank of Peru) “Oil Prices shock and inflation risk-premium: A Second Order Approach”
Discussant: Juan Pablo Medina (Central Bank of Chile)
- 10:20-11:10 **Mirta Sataka Bugarin, Marcelo Kfoury Muinhos, Jose Ricardo da Costa e Silva, Maria da Silva Araújo** (U. de Brasilia and Central Bank of Brazil). “The effect of adverse oil price shocks on Monetary Policy and Output using a Dynamic Small Open Economy General Equilibrium Model with Staggered Price for Brazil”
Discussant: Jorge Selaive (Central Bank of Chile)
- 11:10-11:40 Coffee Break
- 11:40-12:30 **Claudio Soto and Juan Pablo Medina** (Central Bank of Chile) “Oil Shock in a General Equilibrium Framework”
Discussant: Charles Evans (Federal Reserve Bank of Chicago)

- 13:00-14:30 Lunch
- 13:40 **Luncheon Talk**
Chair: Mario Blejer
- Peter Sinclair**, (Birmingham University and Bank of England) "Which (if any) asset prices should be allowed to influence monetary policy decisions, when, why and how"
- Session 5: Supply Shocks and World Inflation**
Chair: Rodrigo Valdés
- 14:30-15:20 **Carlos Eduardo Castillo and Juan Carlos Castañeda** (Central Bank of Guatemala) "Supply Shock in the Transition toward an Inflation Targeting Reform: Evidence for Guatemala"
Discussant: Magin Díaz (República Dominicana)
- 15:20-16:10 **Matteo Ciccarelli and Benoît Mojon** (European Central Bank) "Global Inflation"
Discussant: Mario Blejer (Bank of England)
- 16:10-16:40 Coffee Break
- 16:40-17:00 Closing Remarks
Vittorio Corbo, Governor, Central Bank of Chile