

Dynare Exercise

Outline

- Review Dynare syntax
- Exercises with simple NK model
 - Rationale for the Taylor principle.
 - Potential conflict between working capital channel and Taylor principle.
 - Sensitivity of dynamic response of inflation and output gap to persistence of shock.
 - In examples when Taylor rule moves the interest rate in the right direction, does not move it far enough.
 - The Taylor rule may push the interest rate in the wrong direction when there are news shocks.