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Is Bad News About Inflation Good News for the Exchange Rate?

Discussion by

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Discussion of
**Is Bad News About Inflation Good
News for the Exchange Rate?**
Richard Clarida and Daniel Waldman

Gian Maria Milesi-Ferretti
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Why me?

- The research division I lead focuses on exchange rate analysis and assessments from a medium-term perspective (3-5 yrs)
- This paper focuses on exchange rate responses to news over 10 minutes...
- ...well, they are still exchange rates, aren't they?

On a more serious note...

- Nice paper!
- Very focused:
 - clear question
 - Analytical framework
 - Simple but convincing econometric evidence

Comments: Structure

- The “balance” of the paper skewed towards theory (pages 1-18), even though the meat is in the data and evidence (pages 19-25)

Comments: Empirical evidence

- Neat and strong results...
- ...remarkable for exchange rate regressions!
- Results stronger for core inflation surprises (not “surprisingly”)
- Results weaker for U.S. and Japan (not surprisingly, at least for Japan)

Empirical evidence—suggestions (I)

- Authors use only the first moment from the distribution of forecasts (median value)
- Is the strength of exchange rate effects of inflation surprises related to the dispersion of expectations?

Empirical evidence: Suggestions (II)

- The difficult question: what is the underlying shock?
- Authors could provide more information on the time series properties of inflation surprises (are they negatively/positively correlated)?
- Difference in coefficients across countries (coeff. for Norway above 1...)