

Volume 28, Issue 12**Research Announcement**

Monetary policy should be aggressive -result of the flattening phillips curve-

Kazuto Masuda
Bank of Japan

Abstract

As International Monetary Fund(2006) suggested, the inflation rate is less sensitive to business cycles in 1990s than before 1990s in the world. The so called "flattening Phillips curve" becomes the global phenomenon. If this phenomenon is dominant in the world, how does it affect the monetary policy? This is our motivation. In this paper, we use the typical backward looking New Keynesian model based on Orphanides(2003), and derive the optimal monetary policy rule (Taylor rule). Then, we study the effect of the sensitivity of inflation to business cycles on this Taylor rule. We get the result that the flattening Phillips curve supports the aggressive behavior of monetary authority despite the degree of how the nation respects the inflation. If globalization is the main cause of the flattening Phillips curve as IMF pointed out, our conclusion suggests that the globalization should induce the aggressive monetary policy in the world.

Accepted on for publication in:

Paper is available at URL:

Kazuto Masuda

Bank of Japan

kazuto.masuda@boj.or.jp

Citation: Kazuto Masuda, (2008) "Monetary policy should be aggressive -result of the flattening phillips curve-", *Economics Bulletin*, Vol. 28 no.12 p.A1.

Submitted: August 05, 2008 **Published:** August 06, 2008.

URL: <http://www.accessecon.com/pubs/EB/2008/Volume28/EB-08AA0019A.pdf>