Discussion of “Gambling to Preserve Price (and Fiscal) Stability ” by Corsetti and Maćkowiak

The Credibility of Government Policies: Conference in Honor of Guillermo Calvo

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Overview

- Currency crisis model with long-term nominal debt
  $+$ fiscal correction shock

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- Outline of my discussion
  - Model Summary
  - Comments
    - Multiplicity
    - When to abandon?
    - Connection to current juncture

Start from the situation with a sustainable peg

$$\frac{B_0}{P_{-1}} = S_{-1}\frac{1+r^*}{r^*}$$

Suppose S falls

$$\frac{B_0}{P_{-1}} > \; S\frac{1+r^*}{r^*}$$

Peg must be abandoned at some point

$$\frac{B_0}{P_0}\left[\frac{\delta + r^*}{1 + r^*} - (1 - \delta) Q_0\right] = S\left(\frac{1 + r^*}{r^*}\right)$$

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- Examples of non-unique timing of abandonment

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  - Reason: Calvo 88
    - Dynamic version, Lorenzoni-Werning (2019)

Multiple Equilibria and Calvo 88

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Can ceiling on nominal rates can implement high T eq.?

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Interesting contrast:

- Ability to wait in Rebelo-Vegh comes from seignorage vs. long-term nominal debt in Corsetti-Maćkowiak

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  - Fiscal and monetary stimulus
- No obvious fiscal shock since 2022Q4, yet inflation coming down back to target