Central Banks Going Long

CFM-DP2018-10

Ricardo Reis

Centre For Macroeconomics and London School of Economics and Political Science

Central banks have sometimes turned their attention to long-term interest rates as a target or as a diagnosis of policy. This paper describes two historical episodes when this happened—the US in 1942-51 and the UK in the 1960s—and uses a model of inflation dynamics to evaluate monetary policies that rely on going long. It concludes that these policies for the most part fail to keep inflation under control. A complementary methodological contribution is to re-state the classic problem of monetary policy through interest-rate rules in a continuous-time setting where shocks follow diffusions in order to integrate the endogenous determination of inflation and the term structure of interest rates.