Monetary Policy, Expectations and Commitment: Erratum

George W. Evans
University of Oregon,
University of St Andrews

Seppo Honkapohja
Bank of Finland

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Two of the matrices in the proof of proposition 3 of Evans and Honkapohja (2006) were incorrect.[1] However, the Proposition is correct.

Equations (A7) and (A8) should read

$$DT_b - I = \begin{pmatrix} \frac{-\beta\lambda\bar{b}_\pi}{\alpha+\lambda^2} - 1 & \frac{-\beta\lambda\bar{b}_x}{\alpha+\lambda^2} & 0 & \frac{-\beta\lambda\bar{b}_\pi}{\alpha+\lambda^2} \\ \frac{\alpha\beta\bar{b}_\pi}{\alpha+\lambda^2} & \frac{\alpha\beta\bar{b}_x}{\alpha+\lambda^2} - 1 & 0 & \frac{\alpha\beta\bar{b}_\pi}{\alpha+\lambda^2} \\ 0 & 0 & \frac{-\beta\lambda\bar{b}_\pi}{\alpha+\lambda^2} - 1 & 0 \\ 0 & 0 & \frac{\alpha\beta\bar{b}_\pi}{\alpha+\lambda^2} & -1 \end{pmatrix} \quad \text{(A7)}$$

$$DT_c - I = \begin{pmatrix} \frac{-\lambda\beta\bar{b}_\pi}{\alpha+\lambda^2} - 1 & -\frac{\lambda\beta\mu}{\alpha+\lambda^2} & 0 & 0 \\ \frac{\alpha\beta\bar{b}_\pi}{\alpha+\lambda^2} & \frac{\alpha\beta\mu}{\alpha+\lambda^2} - 1 & 0 & 0 \\ 0 & 0 & \frac{-\beta\lambda\bar{b}_\pi}{\alpha+\lambda^2} - 1 & -\frac{\lambda\beta\rho}{\alpha+\lambda^2} \\ 0 & 0 & \frac{\alpha\beta\bar{b}_\pi}{\alpha+\lambda^2} & \frac{\lambda\beta\rho}{\alpha+\lambda^2} - 1 \end{pmatrix}. \quad \text{(A8)}$$

$DT_b - I$ has two eigenvalues equal to -1. The remaining two eigenvalues are

$$-\frac{\alpha(1-\beta\bar{b}_x) + \bar{b}_\pi\beta\lambda + \lambda^2}{\alpha+\lambda^2} \text{ and } -1 - \frac{\bar{b}_\pi\beta\lambda}{\alpha+\lambda^2}$$

which are negative since $0 < \beta < 1$, $0 < \bar{b}_x < 1$ and $0 < \bar{b}_\pi$. The matrix $DT_c - I$ has two eigenvalues equal to -1 and the remaining two are

$$-\frac{\alpha(1-\beta\mu) + \bar{b}_\pi\beta\lambda + \lambda^2}{\alpha+\lambda^2} \text{ and } -\frac{\alpha(1-\beta\rho) + \bar{b}_\pi\beta\lambda + \lambda^2}{\alpha+\lambda^2},$$

[1] We are grateful to Emanuel Gasteiger for these corrections.

which are negative as also $|\mu| < 1$ and $|\rho| < 1$.

Thus, all eigenvalues of $DT_a - I$, $DT_b - I$ and $DT_c - I$ have negative real parts, so that E-stability holds.

References

Evans, G. W., and S. Honkapohja (2006): "Monetary Policy, Expectations and Commitment," *Scandinavian Journal of Economics*, 108, 15–38.