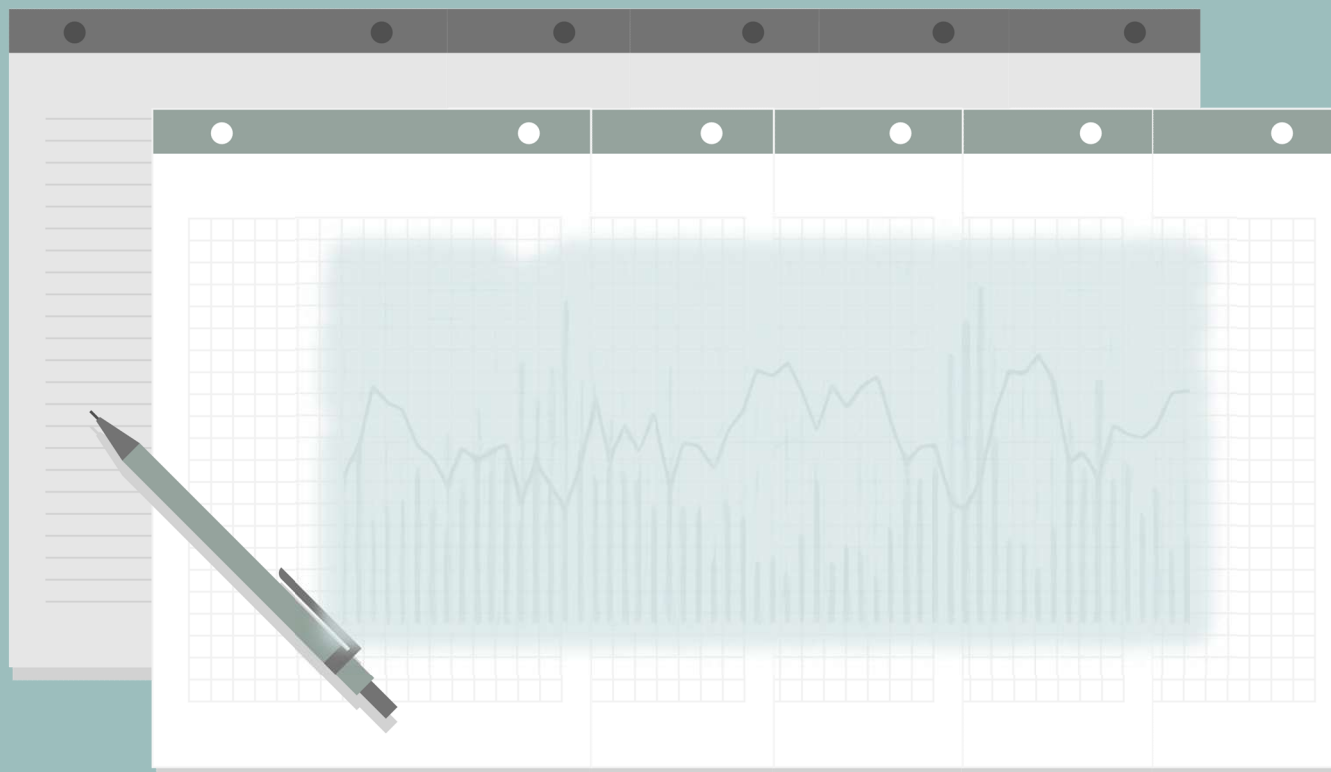


18th South-Eastern European Economic Research Workshop

Bank of Albania
November 19 – 20, 2024



Discussion of research paper

DECONSTRUCTING MONETARY POLICY SURPRISES:
DO SYSTEMATIC CHANGES IN THE MONETARY POLICY
COMMITTEE MATTER?

Author: Marina Koça

Discussant: Orion Garo

RESEARCH OVERVIEW

1. An assessment of how composition and policy preferences of the Monetary Policy Committee (MPC) members of the Bank of England:

- affect the setting of Great Britain's monetary policy;

2. Methods used:

- A “hawk-dove” index (HD-index) for the MPC members is constructed, relying on media narrative records of each member, before joining – and during their time on – the committee;
- A Taylor Rule (T-rule) approach, augmented with the constructed HD-index, is used to test the index's predictive capability;
- A proxy SVAR is fitted – where T-rule's forecast errors are included as an instrument – to estimate the ripple-effect of a sudden key rate tightening, stemming from changes in MPC voting tendencies (HD-index), onto macroeconomic indicators such as industrial production, inflation, unemployment, and FTSE100.

3. Findings: [I] (T-rule) HD-index-augmented T-rule shows statistically significant improvement from the baseline;

[II] (SVAR) a surprise increase of the key rate by 1%-age point would bring about:

- a max decline in industrial production of 9.49%;
- a drop of 5.89% in inflation, following a two-year lag;
- a max increase of 1.7 %-age points in unemployment;
- a drop of 51% in the FTSE100 index.

CONTRIBUTIONS

1. A novel approach of constructing an MPC voting-tendency index, based on the composition of the committee's members (who are classified as hawks or doves);
2. HD-index's validity –as an economic research indicator– is tested through a T-rule approach and a proxy-SVAR approach.

COMMENTS

1. A paper covering a captivating subject in contemporary economic research.
2. A well-organized and detailed literature review.
3. A well-argued methodology; detailed and pertinent to the aim of the research.
4. Results and conclusions, well-written, and to the point.

The approach of quantifying policy rate decision-making, based on committee members' tendencies is very interesting and gripping (to say the least).

REMARKS AND QUESTIONS

General and structure-related, rather than technical:

- I. *(Related to the research motivation and premise):*
 - I. The research question: may be better exposed in the body of the paper, and more amply formulated – possibly a separate paragraph dedicated to it.
 - II. How does the main instrument of this research (the HD-index) relate to your research question? What is the rationale for choosing precisely it?
 - III. Advisable to include: (A) well-defined research hypotheses(i/e)s.
- II. *(Related to the methodology and econometric framework assumptions and limitations):* It is advisable to include:
 - I. Framework assumptions;
 - II. Limitations,

... as a dedicated separate section in the body of the paper.

REMARKS AND QUESTIONS

3. *(Related to important terms used in this research):* Advisable to be more explicit about:
 - I. What constitutes a hawk/dove majority/supermajority;
 - II. What constitutes an MPC centrist member.
4. *(Related to the construction of the HD-index):*
 - I. Elaborate how does this tool differ from similar tools in previous related research? (i.e: Istrefi 2019). Is context, research topic, (,...etc.) any different?
 - II. Is the index based on the %-age of “hawks” vs. “doves” in the MPC, at period “t”? The calculations for obtaining this index ought to be explained more explicitly and in detail, in the methodology section.
5. *(Related to the SVAR approach):*
 - I. It is useful to crystalize the term “price puzzle” for the general reader;
 - II. Elaborate further how the “price puzzle” issue is eliminated in your estimation, by including the T-rule forecast errors. What is the rationale behind doing so?

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