

The stability condition of a forward looking Taylor rule^{*}

Danfeng Kong & Osamu Kamoike, The stability condition of a forward looking Taylor rule. East Asia Economic Research Group[†] Discussion Paper No. 7, January 2006, School of Economics, The University of Queensland. Queensland.

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Abstract

Stability condition is an essential topic of monetary policy rules. If the policy rule can not satisfy the stability condition, it is difficult to treat the policy rule as the policy implementation guidelines. This paper purposes to derive the stability condition of a forward-looking Taylor rule with and without interest rate smoothing. This paper also conducts the empirical analysis of the stability condition of a forward-looking Taylor rule with data of China.

JEL Classification: E52, E58

Keywords: Stability Condition; Forward-looking Taylor Rule; Expected Inflation; Expected Output Gap;

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* The first version of this paper was completed when the first author was in the doctoral program at Tohoku University of Japan. We are grateful to Jiro Akita and an anonymous referee for their helpful comments. All errors are ours.

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[†] The East Asia Economic Research Group was established in July 2005, providing a focal point for East Asia-related research of an economic nature, conducted by academic staff of the School of Economics at Shandong University and The University of Queensland, their research collaborators and other interested contributors.

