Information in Financial Asset Prices

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Pitfalls and Opportunities for the Conduct of Monetary Policy in a World of High-Frequency Data

Pierre Siklos

General Discussion

Charles Freedman explained that the monetary conditions index was designed to indicate a desired path for monetary conditions, but that this has not been successfully communicated to the public, since the market tends to look for an automatic response to certain types of shocks. Freedman asked how the Bank might explain to the public the use of an operational guide as opposed to an operational target.

Joseph Bisignano suggested that the key issue for central banks is how high-frequency data should affect policy rules. For long-run risks, where there is a low probability of a high-social-cost event, discretion is required. Short-run risks, which bear a high probability of a low-social-cost event, can result in excessive action by a central bank. They are best controlled by holding to a policy rule.

David Watt noted that when defining crisis indicators as outliers from the mean, the local level of the variable must be considered. For example, high interest rates between 1979 and 1982 produced large deviations from the mean, but did not necessarily indicate a crisis. Pierre Siklos responded that this issue was considered, but it did not change the essence of his results.

David Mayes commented on the challenges presented by greater central bank transparency. Although public speeches are used as means of repeating and clarifying known information, as well as of disseminating new information, audiences attempt to read new information into every speech. In addition, it is difficult not only to model high-frequency data, but also to explain its use to the public.