The Trilemma Then and Now

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5TH ASIAN MONETARY POLICY FORUM 2018
Introduction

The classic trilemma — evidence

Trilemma versus dilemma

Expanding the trilemma — macro-financial stability

Summing up
**Policy choice**
No monetary policy autonomy
*Sacrifice goal 3 to attain 1 & 2*

**Policy goal 1**
Fixed exchange rate

**Policy goal 2**
Capital mobility

**Policy goal 3**
Monetary policy autonomy

**Policy choice**
Capital controls
*Sacrifice goal 2 to attain 3 & 1*

**Policy choice**
Floating exchange rate
*Sacrifice goal 1 to attain 2 & 3*
Change in home country real GDP growth rate when base country interest rate rises by 1 percentage point.

- All countries: +0.05%, -0.12%, -0.01%, +0.07%
- Advanced countries: -0.27%
- Emerging and developing countries: -0.12%

Higher output cost:

- Floating exchange rate regimes
- Fixed exchange rate regimes
Chart 3b
Responses to a 1 Percent Increase in the VIX
Local projection

\[ \Delta y_{it}^h = \alpha + \beta^h_{peg} USDPEG_{it} \Delta FFR_t + \beta^h_{float} (1 - USDPEG_{it}) \Delta FFR_t + \gamma x_{it} + u_{it} \]
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