

THE EFFICIENCY OF CENTRAL BANK'S SIGNALING

EFICIENȚA SEMNALĂRII BĂNCII CENTRALE

ANA-MARIA ZAMFIR

ACADEMY OF ECONOMIC STUDIES, BUCHAREST

Abstract:

This paper assumes that a central bank can signal at its own discretion and shows that while central banks with high inflation targets never use announcements, central banks with low inflation targets occasionally, but not always, will choose to reveal their private information through an announcement. Signalling will be assumed to be discretionary, and this paper studies if and when a central bank will make announcements. It will be shown that weak central banks will never make announcements whereas tough central banks sometimes, but not always, will resolve the informational asymmetry through an announcement. A first finding is that, contrary to what a cheap-talk equilibrium suggests, the announcements may be more precise the larger the central bank's news.

Key words:

Asymmetric Information, Central Bank, Inflation Targets, Signalling