

The time-varying preference of monetary policy in the euro area: Evaluation with an asymmetric loss function

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Abstract

This paper estimates the time-varying preference of monetary policy (TVPM henceforth) in the euro area. To our knowledge, this is the first estimation of the TVPM. The derived preference suggests that the ECB dislikes the inflationary surroundings generated by the output expansion, and the shape of the loss function often deviates from the quadratic form. This result also suggests that the monetary policy in the euro area might not take the quadratic form assumed in conventional monetary policy analysis.

Keywords: Asymmetric objective, Nonlinear Euler equation, Endogeneity, Forward-looking monetary policy, Time-varying parameter model

JEL Classification: E52, E58