

Speaker:**Siddhartha Chattopadhyay (IIT Kharagpur)****Date and Time:**May 13th, 2024 (Monday); 3:30 PM**Venue:**

Econometrics lab (room no 402), Fourth floor, Department of Economics, Rahul Bajaj Technology Innovation Centre

Title: Inflation Targeting and Optimal Fiscal Portfolio Choice for the US

Abstract: Using behavioral expectation formation of the economic agents *la De Grauwe and Foresti (2023)*, this paper analyzes the optimal fiscal portfolio choice, and its relationship with the inflation targeting for the US. Specifically, we calculate the optimum proportion of the short-term and long-term bonds; and the optimal maturity date of the long-term bonds in the fiscal portfolio. Additionally, we also analyze how the optimal portfolio choice changes along with the extent of inflation targeting of the monetary authority. We find that the fiscal authority should optimally hold 55% (45%) of her debt in long-term (short-term) bonds with maturity date 2 years (3 months) when the short-term policy rate is determined by the truncated Taylor rule. On the other hand, it is found optimal for the fiscal authority to hold 60% (40%) of her debt in long-term (short-term) bonds with maturity date 3 years (3 months) during an economic crisis when short-term policy rate is at the zero lower bound for a prolonged period of time as observed during the global financial recession of 2008. Note, (i) term structure of interest rate suggests a positive relationship between the bond's return and its maturity date; and (ii) bonds with longer maturity date allows fiscal authority to postpone the repayment of her debt outstanding. Our model also predicts a countercyclical portfolio return - higher proportion of long-term bonds with longer maturity in the optimal fiscal portfolio during an economic crisis than the normal time period. However, a pure inflation targeting is always found optimal for the monetary authority irrespective of the economic situation.

About the speaker: I have received my B.Sc. in economics (Hons.) from University of Calcutta in 2000 and M.A. in economics from Delhi School of Economics in 2002. I have received my Ph.D. in economics from University at Albany, SUNY in 2011 with specialization in macroeconomics and econometrics. Before pursuing my graduate studies abroad, I have also worked as Research Assistant in Centre for Studies in Social Sciences, Calcutta (CSSSC).

After completing my graduate studies, I have worked as a visiting faculty in Vinod Gupta School of Management (VGSOM), IIT Kharagpur from June 2011 to August 2013. I am currently working as Associate Professor in the Department of Humanities and Social Sciences, IIT Kharagpur from June 2023. I have also worked as a consultant to National Council of Applied Economic Research (NCAER), Delhi for a year in 2011-12.