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Christopher A. Sims Paper:

This paper reviews the use of economic modeling in formulating monetary policy since the early 1980s. Early efforts to incorporate rational expectations led to models that were not true probability models. More recently, driven by the move to inflation targeting and greater transparency, probability modeling is appropriately being reintegrated with policy modeling, often using a Bayesian approach. Current modeling research is largely directed at dealing with nonlinearities in variables and at incorporating more theory-based modeling for price and wage stickiness. The paper also explores the debate over whether inflation-targeting central banks should publish their policy interest rate forecasts, and whether explicit policy rules, and if so, what kind, best promote public confidence in and understanding of monetary policy. It concludes that the increased interaction observed between policymakers and modelers should improve monetary policymaking but may require new institutions of cooperation between them.

JEL classification codes: C52?, E37, E47, E52, E58