Response to the Referee

Suggestions
1. While we are sympathetic to your suggestion, we are concerned that it would prove to be too much of a distraction. Any reasonable explanation would take more than just a simple table because of the many subtleties involved with the different types of classifications. Further, all this is, in some sense, something of a tangent to the main thrust of our paper; this could prove distracting. Accordingly, we have tried to stay short and referred the reader interested in further details back to the original underlying source papers.

2. For countries that are comparable to inflation targeters in terms of income and/or size (that is, those in our default sample), there is no issue. Thus, the issue arises because of countries that are *de jure* currency boards or monetary unions that are in the world, but not in our default sample. For instance, there are a large number of countries in Western and Central Africa that are in the CFA zone, which has proven to be a durable monetary regime. Ditto the long-lived currency union in the Eastern Caribbean. However, Rose's (2000) piece in *Economic Policy* was heavily criticized for relying on such observations, since they seem irrelevant to larger and/or richer countries. Accordingly, we feel it appropriate to only compare inflation targeting countries to those that are … comparable. We try to be clear as well as liberal in our choice of the comparison set (which is laid out in section 3), and we've also added more discussion of this point in an endnote.

3. We think this is a matter of the relatively small sample sizes experienced by IT regimes. After all, the alternative regimes can have up to twice as many observations for each country. However, *none* of the alternative regimes have significantly longer durations than IT. That said, we are sympathetic to your point, and have altered our language accordingly.

4. Good point (and sharp eyes!). We do this since it seems to accord with actual central bank practice; inflation targeters (like Chile and Israel) seem less concerned with their exchange rate than with inflation. We have now added appropriate language to the note.

5. This is a reasonable suggestion, and we have taken it.

6. We are trying here to be provocative, but not unreasonable. Your point is that some new art (e.g., Picasso) is at least as good as much old art (e.g., Agricola), and we agree. We interpret that as saying that Agricola's art has not withstood the test of time very well. As you say, his art is worth much less than Picasso's; he also only gets 24,000 Google hits (for "paintings agricola") as opposed to 292,000 for Picasso. Picasso dominates Agricola, just as Inflation Targeting (a new monetary regime) dominates the older regime of exchange rate fixing. Thus we agree with you "in the large." We interpret this all to mean that time is a valuable filter for art; the forgotten artists of three hundred years ago are just that; forgotten.

Minor Points
a) Taken
b) Taken
c) Taken

d) Taken

e) We do include as controls X_{t-5} (not X_t). The main motivation for the regression is to determine the best forecasting variables for inflation perfomance at long horizons. If we try to predict what will happen to inflation 5 years from today, then it seems reasonable that all variables should be lagged 5 years or more.