**Referee Report for the paper entitled
"The Portfolio Theory of Inflation (and Policy
Effectiveness)"
(Corrected Version)
by Biagio Bossone**

MS number, 3078

Bossone presents an insightful discussion of the role of global financial markets in determining the effectiveness of macroeconomic policy using the Portfolio Theory of Inflation (PTI) approach.
This paper provides a relevant contribution to a highly significant policy issue and is therefore of interest for the related research community. However, I list some comments.

Major comments

- One important aspect of the paper is the *level* of policy credibility. Which is based on country's past track record. In equation (1) the credibility is represented by a discount factor. For me as a reader it is not clear, why this discount factor indicates credibility. How is credibility measured in your context? Is it an index, a risk premium, a probability,...?

- What exactly does the information set ω_t contain? For a better understanding of the proposed model it is essential to reveal more details for ω_t. For example: Where does the mentioned "new information set" discussed in the credibility and macro policies section comes from?

- On page 6 you wrote that the PTI approach is consistent with different economic outcomes and can *indeed* explain them. Further you wrote on page 10 " ... the theoretical results of this study are in line with the empirical findings...". Which results and/or economic outcomes do you mean exactly? That would make it easier to see the strengths (and weaknesses) of this PTI approach.

- It would be interesting to see how sensitive monetary policy is in regard to credibility and financial integration. You wrote on page 25 " ... high credibility raises the effectiveness of monetary policy..." and this is "... particularly relevant for highly financially integrated and highly indebted countries... ". How does this relation between credibility and effectiveness of monetary policy change for less financially integrated or less indebted countries?

Minor comments

- page 5 the abbreviation "IBC" should be written in full length (it is first written on page 7)

- page 12 between the first and second bullet point are two "or"

- page 22 the last roman letter in the list should be a "v" instead of a "i"

- page 32 their is a little typo in the last sentence "... outcomes in different countr**ies**"