

## **Referee's Report on 'Endogenous Indexing and Monetary Policy Models' by Richard Mash**

This is a contribution to the literature on DGE models of staggered pricing. The author looks in particular at versions of such models in which indexation rules are used. In the standard versions of such models the indexation parameter is exogenous, but Mash considers what happens if it is chosen optimally. In the microeconomic part of the paper, he shows that the optimal value depends on the degree of persistence of inflation in the macroeconomic environment, for three different rules. In the macroeconomic part, he then derives the 'New Keynesian Phillips Curve' equation associated with each rule. This will generally contain lagged inflation, and so imply some persistence of inflation in macroeconomic equilibrium. Mash then looks for a 'fixed point', in which the implied persistence of inflation is consistent with the optimal degree of indexation to which it gives rise. He finds that for two of the models the only equilibrium degree of persistence is zero. For the third, it is positive, but he argues that the type of indexation assumed in this case is the least convincing of the three.

Overall, I do think this is a potentially significant contribution and I do think the analysis is correct. The general conclusion of the paper is one of scepticism about putting indexation in models of staggered pricing, and I agree that Mash's analysis contributes to the reasons why we should be sceptical.

From a technical point of view, it is sometimes not easy for the reader to see exactly what are the calculations which have been performed. This is especially the case in the simulations which underlie the analysis of the 'CEE' model in Section 3. Here a large number of simulations have been done and an average has been taken over them, but the compressed exposition gives only a rather hazy idea of what the exact calculations are. The discussion of 'stability' could be made rather more explicit. From an expositional point of view, I find Mash's use of formal 'propositions' to be rather loose. His 'propositions' are not precise formal statements of his results; they are just rather broad verbal characterisations of what he found.