

To: Dr. Richard Mash
University of Oxford

11 December, 2007

RE: Endogenous Indexing and Monetary Policy Models, by Richard Mash
E-economics Discussion Paper 2007-36 (MS 92)

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Dear Richard,

I read carefully your response to the Referee Reports. You actually already suggested how the paper should be amended in order to incorporate the main referees' comments. Referees did not react to your response. My reading is that your response outlines a series of sensible changes, mainly in the presentation and discussion of your results, that would improve both the clarity and the convenience to a general audience.

Therefore, I think the paper can be accepted for publication, provided that you incorporate in a revised version of the paper the following points:

- 1) Add an appendix to the paper with the details of the calculations and simulations, in order to satisfy the concern of Referee 1. I think that also some (or many) analytical expressions and material in the paper can be moved to the Appendix. You should try to shorten, rather than extend the main paper, while writing an appendix of the length you think necessary. Then, we can post the Appendix on the webpage of the Journal (and you on your homepage) for the readers interested in the details of the calculations.
- 2) Relabel Propositions as Results.
- 3) Put a lot of effort in the introduction to explain both the motivation and the novelty of your paper. I do think that the line of reasoning you set in your response (what you call point a) –d)) is rather good. In particular, I agree with:
“The paper retains (b) while unpicking (c) by endogenising the structure and coefficients of the indexation/rule of thumb functions, and finds that if one does so (d) is significantly undermined [...]. Since (c) is a step in the direction of

enhancing the microfoundations of these models and moving them closer to optimising behaviour (though not reaching that point as (b) is retained) the paper shows that the compromise of assuming (a)-(c) in order to achieve (d) is a much less comfortable one than previously thought". So I invite you to follow this way of presenting your paper in the Introduction.

- 4) Finally, again in the Introduction, you should address the other concern of Referee 2 concerning microdata and micro evidence. Here, I think the answer should be rather short. As you write: *"Unfortunately the answer is no"*. I think you should simply exactly and explicitly acknowledge it in the Introduction, after the above discussion regarding point 3).
- 5) Focusing the Introduction on answering Referee 2 comments will make clear to the reader both the novelty and the limit of your analysis. It follows, however, that most of the current material in the introduction should be heavily compressed or removed.

I hence invite you to proceed to revise the paper along these lines. Since most of the changes are mainly on presentation and discussion, I expect the new version to be accepted for publication.

Many thanks for letting us review your work. I look forward to receiving your revision.
Sincerely,

A handwritten signature in black ink, reading "Guido Ascari". The signature is written in a cursive, flowing style.

Guido Ascari