

Dear author,

I highly appreciated reading your paper entitled „The Possible Trinity: Optimal interest rate, exchange rate, and taxes on capital flows in a DSGE model for a Small Open Economy“. The author builds a DSGE model to analyze the impact of capital controls on macroeconomic stability modeled as a tax on either foreign liability of households or a tax/subsidy scheme for flows of liabilities. He finds that, in general, the tax reduces the loss of institutions following their policy functions.

The author puts a lot of effort in building a DSGE model capturing a complex setting of assets and describes the intuition behind those equations very well. He, furthermore, shows the reason why losses in the different scenarios differ. As this may be the most crucial part of the model, it might be the reason why the author discusses the impulse response functions very shortly. I would suggest to add some more explanations on the differences in IRFs in the different scenarios even if the paper is already pretty long. Additionally, the author might think about including some insights into how the small economy assumption affects the results. Is the kind of tax imposed always beneficial in terms of a lower loss?