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 mar-
kets 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 \( \omega_t \) contain? For a better under-
standing of the proposed model it is essential to reveal more details for \( \omega_t \).
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 empiri-
cal 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 ”... par-
cularly 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 countries"