

The comment received is split below into its several components (reported in italics, between quotation marks, and in blue color font). Each component is specifically addressed by us – as authors - in turn.

*"A key weakness of the paper is that it does not explicate its contribution to science."*

The paper's contribution to theory is explained in the abstract and, more in detail, in Sections 1, 3, 5 and 8. The paper investigates how the effectiveness of macro-policies in countries that are highly financially integrated, where significant resource allocation decisions are taken by global investors rather than domestic market players, and shows how macro-policy ineffectiveness may dissipate into higher inflation in countries that suffer from low policy credibility (in the eyes of the markets). Section 5 specifically discusses how the PTI complements and supplements existing theories of inflation.

In this last section, in fact, references can be added as regards the fiscal theory of the price level (see the comment below), along the same lines of Bossone (2019).

*"As a matter of fact, it does not relate PTI to the already very voluminous literature in the fields considered (including e.g. the fiscal theory of inflation). The literature review in Section 2 consists of one paragraph and cites one paper besides Bossone's own 2019 paper. The literature list is very short and several of the citations are to debate papers or working papers."*

For reasons of space and in light of the fact that the paper revisits the PTI developed in Bossone (2019), the decision was taken not to replicate the full review of the literature contained in the previous article and simply refer the reader to it. The review fully explores the existing literature and makes reference to 23 (published) articles. The additional references in the paper are the result of the supplemental review of the literature that was done while revisiting the PTI. However, should the Editors further decide that the full review is to be added in the paper, this could be accommodated easily.

Finally, while most of the articles referred to in the literature review are published work, as just mentioned, some refer to debate and working papers. We do highly value also contributions from unpublished works. While still in progress and although some of them might not eventually be published, they can still make significant contributions to theory and applications, and they too are part of the scientific literature, as broadly intended, which researchers should consider and benefit from when they the merit of it.

*"The results of the empirical investigation are at best suggestive."*

The purpose of the empirical investigation was to test two key propositions derived from the PTI. The results obtained and reported are preliminary, and the purpose of circulating our work as an Economics' Discussion Paper was precisely to get comments and feedback that we could use to improve our analysis and results. Indeed, the results of the paper are suggestive and therefore encouraging. They are by no means intended to be conclusive and stand open to be further developed. As authors, we would tremendously benefit from more specific comments and suggestions from the commenter and other readers.

*"It is again symptomatic that no other studies are cited and that the empirical specification is not related to other studies in the literature."*

We believe the PTI is an innovation, and we were not able to identify studies that could be used as benchmarks and lead us to better empirical investigation. Of course, again, we are open to suggestions.

*"The specifications are unrefined and do not appear to address identification issues."*

We have used as independent variables monetary and fiscal magnitudes that respond directly to policy decisions taken by national authorities. Since this is done consistently across country clusters, and the methodology adopted allows to control for other effects, differences in regression coefficients should be indicative of how different levels of credibility affect the relationship between the fiscal and monetary policy variable and the real and nominal variables (real GDP and inflation).

*"Moreover, the splitting of the sample of countries into "high credibility" (HC) and "low credibility" (LC) countries appears subjective and may not be independent of the desired research outcome. There may be other empirical methods that could provide insights into the raised research question."*

No subjective judgement was exercised by the authors. Credibility was proxied by the combined ratings assigned to each country by the three major rating agencies Moody's, Standard & Poor's and Fitch. In fact, three agencies were considered instead of just one, precisely to make that proxy as objective as possible. Furthermore, the two country clusters were constructed so as to be as polarized as possible, by populating each of the two clusters with countries featuring, respectively, the highest and lowest levels of rating. As explained in the Appendix, the "high credibility" (HC) cluster was formed by selecting countries with prime or high-grade ratings and comprises the 12 countries that happen to fall within that category. The "low credibility" (LC) cluster was formed by considering the 7 countries rated as highly speculative, substantial risks and extremely speculative or in default and by 5 countries rated as lower medium grade or non-investment grade speculative, which were added specifically to form a LC cluster of equal size to the HC one. No subjective choices were made by the authors.

Of course, we remain open to suggestions about alternative methods, as we understand the commenter may have some in mind.