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# Commitment Policy and Optimal Positive Long-run Inflation*

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**Abstract**

This paper studies different types of commitment policy in an economy where the deterministic steady state is inefficient. We show how a policy suggested by the approach of policy design entails positive long-run inflation, even in the purely forward-looking canonical New Keynesian model. The long-run inflation target is robust to inflation persistence due to backward-looking rule-of-thumb behaviour by price setters. The optimal long-run inflation target is positive in all but one of the six theoretical cases studied. We evaluate policies on the basis of both the deterministic equilibrium and the stochastic equilibrium and present robustness analysis in terms of two structural parameters.

*JEL classification*: E31, E32, E52, E58.

*Keywords*: Optimal monetary policy, inflation persistence, policy rules, timeless perspective.

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