General Discussion*

In response to the discussant's comments, Alain Guay emphasized that the authors do not think that their results imply that the New Keynesian Phillips Curve (NKPC) is dead, but rather that further research is required.

Hashmat Khan noted that the generalized method of moments (GMM) and the continuous updating estimator (CUE) techniques yield quite similar results, and he stressed the importance of the firm's marginal cost to give plausible estimates for duration. Khan went on to say that estimates of the discount factor will be biased upwards if one does not account for the influence of trend inflation; therefore, the authors' results with beta greater than one are not too troubling if viewed in this light.

Gregor Smith stated that the Hall test will, in fact, under-reject the false null. Consequently, given the rejection of the model in this paper, things could be even worse for the NKPC.

Martin Eichenbaum noted that since some U.S. studies have demonstrated that the inflation process may be adequately modelled as a random walk, attempts to model quarterly changes in inflation seem unlikely to yield any substantive results (the same problem would presumably apply for Canadian data).

Michael Woodford commented that the small positive, but statistically insignificant, parameter estimates for the marginal cost variable did not imply an outright rejection of the NKPC, but could still be consistent with the model.

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* Prepared by Stephen Tapp and André Binette.

Guay agreed with Woodford and expressed hope that future theoretical developments would help to find a more satisfying or parsimonious specification. Guay acknowledged that forecasting with the authors' current specification of the NKPC does not outperform a simple random-walk process for inflation, so again, improvements are needed. In response to Smith's comment, Guay said he knew that the test is more powerful; however, he didn't perform any simulations for the level of the test because he felt from his previous work that the level of the test was appropriate. He agreed, however, that Smith's point was valid, and the authors could look into it.

Richard Luger disagreed with Eichenbaum's earlier comment and stated that the Galí-Gertler purely forward-looking specification of inflation dynamics can be rewritten as a backward-looking process and that this is not inconsistent with a rear unit-root process.

Jean Boivin reiterated his view that since similar results could be derived using standard GMM estimation, as opposed to the authors' CUE estimator, the results were more likely a facet of the data than an outcome of the CUE technique.