

Is the Green Transition Inflationary?

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 - With sticky prices, if prices in the dirty sector is more flexible than in the rest of the economy (ROE) there is a trade-off between (CPI) inflation and the output gap.
- In the full model, the carbon tax leads to a sizable but short-lived recession.

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- Does these things matter? I do not know.

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- Could matter since a transition is 10, 20, 30 years.

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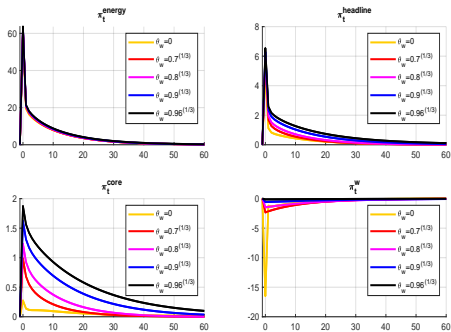
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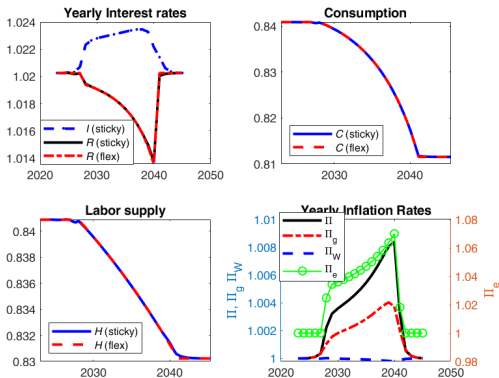
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 - There is a trade-off as in Marco's paper, but it is welfare improving to not target headline inflation.
- Result 3 (different): in contrast to in Marco's paper, the green transition need not generate a recession if MP is well designed.
 - Marco's paper models heterogeneity in energy dependence, which might be important.

Figure 4. Inflation dynamics under strict output gap targeting



Notes: All lines show annualized log-deviations of each variable relative to the new steady state, i.e. we plot 1200x the log deviation.

Inflation dynamics in Olovsson & Vestin



- Quite different inflation dynamics.
- Note the replication of the flex-price equilibrium (also different).

Summing up

- The paper is concerned with an important question that people and policy makers do not seem to know how to think about.
 - Great value added!
- The analysis and the results are very clear.
- Olovsson and Vestin (2023) uses a quite different model but many conceptual results are similar to those in Marco's paper. There are also interesting differences, The papers complement each other.
- I am looking forward to read future iterations of the paper!