

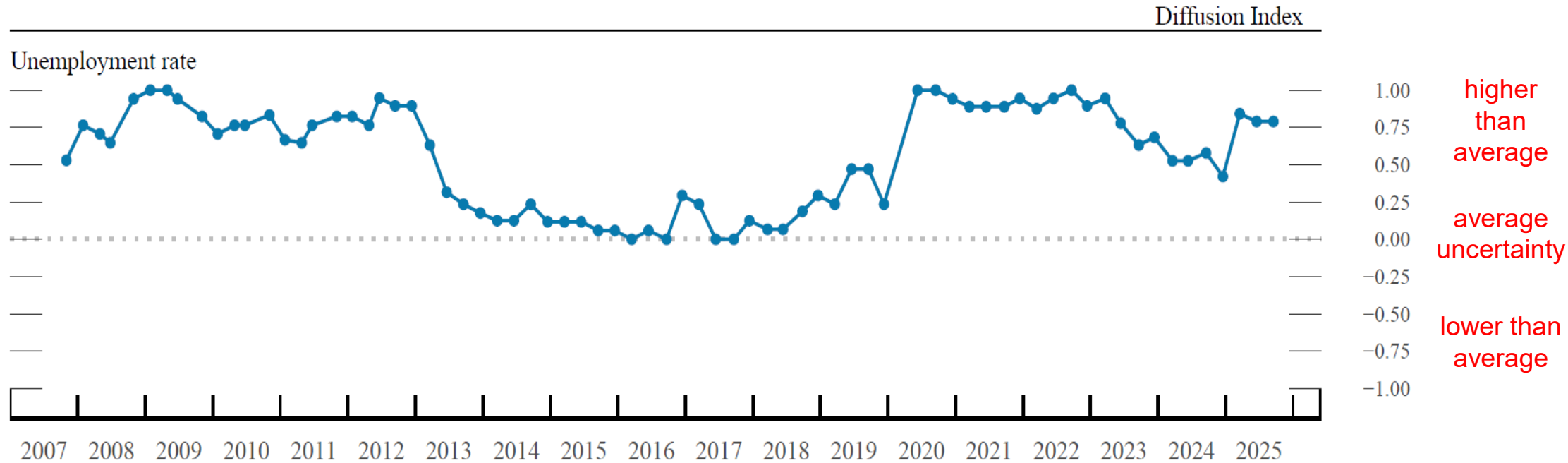


Melbourne Macro Policy Panel: Macro Policy in the Context of Global Uncertainty

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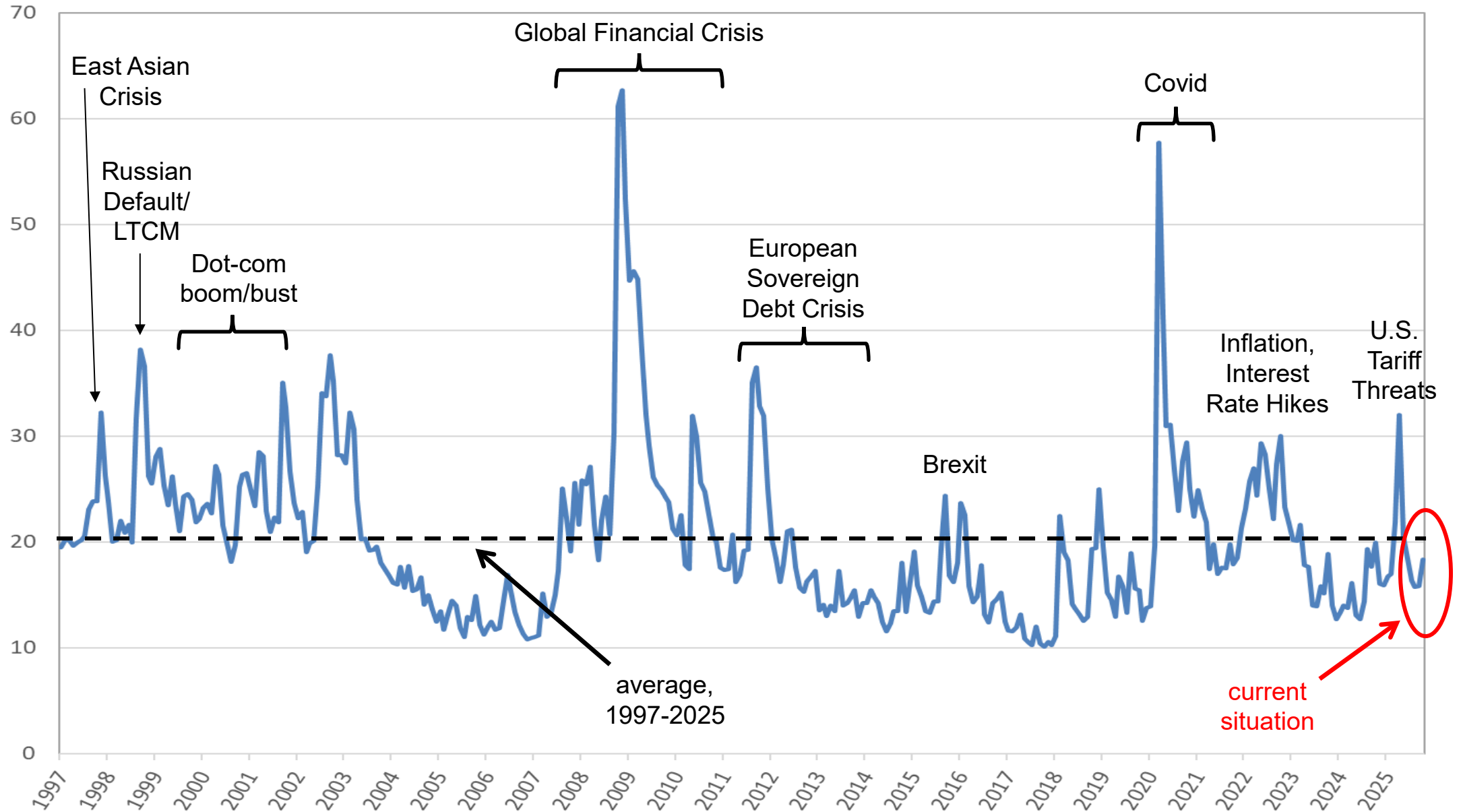
Melbourne Macro Policy Meeting
October 31, 2025

FOMC Perceptions of Uncertainty, 2007-2025



Lake Wobegon Effect: “All the children in Lake Wobegon are above average”

VIX, 1997-2025



Macro Policy and Uncertainty Today

- Uncertainty is always quite large
- Uncertainty today is not unusually high; in fact, the VIX is below average

How should policymakers act in context of uncertainty?

- Benchmark: quadratic objective, linear economy: certainty equivalence
 - make your best estimates and conduct policy as always based on those

Reasons to deviate from the benchmark:

- Asymmetric loss/objective: shade policy to insure against more costly loss
- Uncertainty about effectiveness of policy: be more cautious (Brainard)
- Filtering problem: uncertainty about signals: put more weight on prior, less weight on signals
- Nonlinear economy? Generally not, except for ZLB