

## **I. An Introduction to Forecasting and Policy Analysis System (FPAS) Models: Concepts and Application in Central Banking**

- What is FPAS model
- Comparison with DSGE models and Structural VAR models—Advantages and limitations
- Adoption of FAPS model by central banks for policy analysis
- Detailed structure of FPAS model

## **II. Application of FPAS Models: Examples: India, Keneya, Sri Lanka**

India: Monetary policy transmission through aggregate demand channel, Decomposition of output gap and inflation due to domestic and foreign factors, prediction of policy path

Keneya: An example with food non-food inflation, decomposition of output gap, food, non-food and headline inflation due to domestic and foreign factors, prediction of policy path

Sri Lanka: Framework for choosing inflation targeting rule

## **III. Evolution of monetary policy from discretion to rule and concept of optimal monetary policy and Welfare-based Criteria**

- Historical perspective
- Original Taylor principle
- Empirical evaluation of Taylor rule
- Optimal monetary policy rule in DSGE framework

## **IV Examples of optimal monetary policy under alternative economic structures**

- Optimal monetary policy in Basic DSGE model

- Optimal monetary policy under labour market friction
- Food vs. Non-food inflation, Central Bank's dilemma and Optimal monetary policy