

6 Conclusion

From a social welfare point of view, it might be argued that more transparency on the part of the Central Bank is desirable. We have shown, however, that if information is used strategically to accomplish policy goals, and those goals are not perfectly aligned with those of the price-setters', there is a bound to what can be attained in terms of transparency: communication must be noisy.

Within our model, we have also shown that the (maximum) amount of information conveyed by a strategic Central Banker will be larger (i) the lower his bias toward lower (average) prices, (ii) the higher his aversion to price dispersion, (iii) the less informed the agents are, and (iv) the higher the complementarity among the price setters'.

From an institutional design perspective, our model suggests that, by designing its preferences in a way that significant weight is put on aversion to price variability, one can affect substantially the amount of information conveyed by a strategic Central Bank.