

## Assessing Australian Monetary Policy in the Twenty-First Century\*

**Abstract:** Using the Reserve Bank of Australia's MARTIN model we compare actual monetary policy decisions to a counterfactual in which the cash rate is set according to an optimal simple rule. We find that monetary policy played a crucial role in avoiding a potential recession in 2001 and mitigating the downturn in 2008-2009. By contrast we find that the cash rate was too high during 2016-2019, keeping inflation below the Reserve Bank's target band. Optimal monetary policy in these years would have involved a substantially lower cash rate and would have produced significantly better outcomes in the labour market.

**Keywords:** optimal monetary policy, unemployment, output gap, inflation

**JEL Codes:** E47, E52, E58