

# **Market-Friendly Central Bankers and the Signal Value of Prices**

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September 2021

## **Summary**

We study the two-way interaction between central banks and financial markets using a beauty contest framework. The analysis identifies when asset prices reveal useful information about fundamentals and when they reflect back the central bank's pronouncements. In equilibrium, the central bank is overly dependent on financial market signals and the information value of asset prices is diminished. Our results highlight the need to guard against giving undue prominence to market signals during monetary policy deliberations, but they can be specific to the mathematical model employed in the paper.