## **Table of Contents**

1	Intro	duction	1
2	The Key Results		3
	2.1	The Basic Model	3
	2.2	Instability of Fundamentals-Based Policy Rules	5
	2.3	An Expectations Based Optimal Rule	10
	2.4	An Alternative Expectations Based Rule	13
3	Lear	ning by the Policy Maker	14
4	Exte	nsions	18
	4.1	Alternative Learning Rules	18
	4.2	Observation Errors	19
	4.3	Other Directions	21
		4.3.1 Output Inertia	21
		4.3.2 Policy Under Limited Commitment	22
		4.3.3 Rules Based on Inflation and Output Data	23
5 Conclusions		25	
R	References		