

# ABSTRACT

INTEREST RATE TARGETING AND ANNOUNCED POLICY WITH  
UNCERTAINTY

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This thesis borrows from Fleming's theoretical structure and hangs over from Chang et al. (1994) whose study in uncertain monetary policy. Our study relaxed the strong assumption of perfect foresight, focus on uncertainty of nominal interest rate targeting of Central Bank. We clearly point out that the expected path of output and exchange rate and the real path of output and exchange rate will not coincide with each other when the policy is uncertain. This conclusion differs completely from Chang et al. (1976).

Under rational expectation, we find that the uncertain policy of Central Bank may lead the public to make either an overestimation or underestimation of domestic output and exchange rate. Additionally, we find that "expected" state variables are able to jump when the information set is refreshed.