This PhD workshop is organized by the Macroeconomics, Growth and History Centre (MaGHiC). The workshop is designed for MaGHiC student members to receive direct feedback from faculty members in a conference setting.

13:00-13:30: Sevgi Coskun

“Labor Market Fluctuations in Developing Countries”

This paper explores the labor market properties of business cycle fluctuations for a group of 17 developing economies and the USA from 1970 to 2013. We first find that average standard deviation of employment and hours worked relative to output is lower in developing countries than in the USA while the average volatility of productivity and wages are 2-3 times as high in these countries compared with USA. We also find that hours worked, employment and wages are more pro-cyclical in the USA than in developing economies.

Then, we build 6 models without nominal frictions driven by temporary and permanent shocks following Aguiar and Gopinath (2007) to explain whether real business cycle models can successfully account for the business cycles features in these economies. We figure out that our models fail to generate business cycles features consistent with the data but RBC model with investment adjustment cost doing the best job among others.

13:30-14:00: Florian Gerth

“Allocative efficiency of UK firms during the Great Recession”

The aim of this paper is to find out whether the drop in Total Factor Productivity in the UK, following the Great Recession, can be accounted for by factor misallocation between establishments in narrowly defined industries. In order to do this I rely on firm-level as opposed to aggregate-level data. The data used is the FAME dataset provided by BvD. In its unrestricted form the database consists of over 9 million firms from the years 1995 to 2014. In order to detect potential misallocation, two indexes are derived that were firstly introduced by Hsieh and Klenow (2009). Following there methodology I cannot find a worsening in resource misallocation between firms. On the contrary, misallocation seems to abate with the onset of the Financial Crisis at the end of 2007. These findings point towards Schumpeterian models that predict cleansing effects during periods of economic unrest.

14:00-14:30: Oyakhilome Imbaghui

“The Transfer Problem in Sub-Saharan Africa after the Financial Liberalization of the 1980s”

In this paper, we examine the links between international payments (represented as net foreign assets) and the real exchange rates. This is known as the transfer problem. Our study focuses on sub-Saharan Africa after the financial liberalization of the 1980s and utilizes a
testable theoretical model that emphasizes relative prices of nontraded goods as the main channel through which relationships between net foreign assets and real exchange rates are transmitted. Relying on this model, we construct a framework for our reduced-form empirical specification and formulate cross-sectional and panel regressions which allow us to test for the long-run links among real exchange rates, net foreign assets, relative GDP and terms of trade with data samples of sub-Saharan African countries between the periods 1985 and 2013. We show that, post financial liberalization, there is no long-run evidence of transfer effects in sub-Saharan Africa. However, upon considering the impact of specific economic characteristics such as the extent of trade openness and foreign aid, we obtain evidence supporting the existence of significant transfer effects and we show that the magnitude of transfer effects varies with these economic characteristics.


“Expectational Errors, Credit Supply Shocks and Collateral Constraints: When Good News Turns Bad”

The recent financial crisis was categorised by a sharp and pronounced downturn in both output and house prices. This paper sets out to examine whether expectational shocks alone can generate the aforementioned downward comovement. The paper sets out to answer this question by constructing a New-Keynesian DSGE model with multiple credit constraint agents and allowing for expectational shocks to the loan-to-value (LTV) ratio. The contributions of this paper are threefold. Firstly, when agents anticipate a future loosening of the LTV ratio and this expectation turns out to have been incorrect, house prices, consumption, investment and output all suffer a sharp decline. Secondly, the paper shows that in order to generate downward comovement of output and house prices in response to a frustrated expectational shock to the LTV ratio, agents must be able to post a substantial quantity of the total value of their housing asset as collateral. And thirdly, the ability to post capital as well housing as collateral significantly amplifies the cumulative loss of both output and house prices in the face of a frustrated expectational shock to the LTV ratio.

15:15-15:45: Young-Kwan Kang

“Monetary policy considering the role of money and banking”

This paper investigates desirable response of monetary policy when the role of money and financial frictions are important. I construct an extended DSGE model with a bank’s loan production function, which captures net effects from financial frictions (financial accelerator plus banking attenuator due to deposit in advance constraint for consumption and investment). Main results suggest that in the presence of substantive financial frictions, monetary policy has to pay attention to financial conditions (credits, asset prices, external finance premium) when setting policy rates. In addition we show that endogenous reserves can mitigate the fluctuation of external finance premium by acting as a cushion against monitoring works for loan production.