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. We also invite all interested students and staff for an introduction of the activities done at the Centre.

13:30-14:00 Introduction: Keisuke Casey Otsu

“What we do at MaGHiC”

14:00-14:25 Oyakhilome Ibhagui

“Do Monetary Fundamentals Provide Insights into Exchange Rate Movements in Sub-Saharan Africa?”

In this paper, we offer a view on the long run relationship between exchange rates and monetary fundamentals in Sub-Saharan Africa (SSA). Our central focus is to determine whether monetary fundamentals explain exchange rates movements in SSA. We thus test the long-run monetary model of exchange rate determination for a collection of 22 SSA countries. Our approach is in three phases.

First, we perform a country-by-country analysis for each of the 22 SSA countries. Results obtained fail to lend considerable support for the monetary model in most of the SSA countries analysed. Following this failure, we resort to the second phase of our approach, which is a panel analysis, and employ panel techniques to test the validity of the monetary model. Interestingly, and in sharp contrast with the country-by-country analysis, we find some convincing partial support for the monetary model. The support, though partial, suggests that relative money supply and relative real output play significant roles in exchange rates determination in SSA. Our results yield cointegrating coefficients with correct signs and significance as predicted by the theoretical model and are generally robust to an array of estimation techniques. Estimated coefficient of relative money supply is however less than unity. In the last phase, we extend our panel analysis and augment the traditional monetary model to include countries’ exchange rate regimes (a dummy variable which equals 1 for floating regime and 0 for nonfloating regime) and interactions between exchange rate regimes and monetary fundamentals. The aim of this extension is to check whether exchange rate regime enhances better conformity of the relationship between exchange rates and monetary fundamentals to the standard predictions of the monetary model of exchange rate. Our results indicate that exchange rate regime does not help provide a robust evidence of a long-run relationship between monetary fundamentals and exchange rate movements consistent with predictions of the theoretical monetary model of exchange rate determination. This is because the estimated coefficients of relative money supply and relative real output, when interacted with exchange rate regimes, are either insignificant or yield signs that contradict the requirement of the monetary model. This finding suggests that the choice of exchange rate regime might not be much of an important factor for monetary fundamentals to bear the expected relationship with exchange rates consistent with the monetary model of exchange rate determination.
Phillip Dueber

"Uncertainty and Capital Flows in Emerging Market Economies"

In the recent past gross capital inflows and outflows into emerging market economies increased massively and were characterized by large deviations from the long term trend. This paper analyzes these cyclical fluctuations under the aspect of changes in macroeconomic uncertainty. The first part estimates an open economy dynamic stochastic general equilibrium model with uncertainty shocks to derive theory based restrictions for a structural VAR. It then continues and applies in the second part a SVAR approach with combined sign and zero restrictions to estimate the impact of uncertainty shocks on Mexican gross capital flows.

Gustavo Mellior

"Transitional dynamics of a credit crunch in a Huggett-HACT economy"

Since the original papers in Huggett (1993) and Aiyagari (1994), economists have compared distinct steady states due to different borrowing constraints and how they relate to aggregate savings. Achdou et al. (2015) develop a new methodology for macroeconomic models of heterogeneous agents in continuous time (HA-CT). One of their key contributions is that this new framework seamlessly allows for computing the transitional dynamics of a permanent, one off, parameter change (an MIT shock). This lets us tie the transition between one steady state to another. The new feature is flexible enough to compute the transitional dynamics of any parameter change except the one governing the borrowing constraint. By changing this parameter we modify the size of the state space. As a consequence, when moving from one steady state to another we run into a computational dead end. My extension works around this issue by exploiting to key ingredients in the numerical scheme developed by Achdou et al. (2015): state boundary constraints and upwind differencing. By adjusting these two essential ingredients we are now able to compute the transitional dynamics of a credit crunch in an HACT economy. Whereas Huggett and Aiyagari give snapshots of steady states due to different debt limits, my extension allows us to now see how we get from steady state A to steady state B and by doing so we can study the transitional dynamics of a credit crunch. My results show that a small credit crunch increases consumption inequality and that this is brought about by deleveraging and its effect on the interest rate.

Joe Morell

"Asset Pricing in General Equilibrium: A New-Keynesian Analysis"

We revisit the asset pricing implications of the New-Keynesian model by introducing Epstein-Zin preferences, long-run nominal risks and a credit market friction into a medium scale model. We then compute a second-order approximation of our model to examine the returns on bonds and equities. While our model is able to match key bond moments without distorting the fit of macro variables, it is unable to provide a convincing explanation of equities.

16:00- Get together at K-bar