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.

**Session I. Templeman Lecture Theatre, 13:00-15:20**

13:00-13:05 Opening

13:05-13:30 Joe Morrel

“The Decline in the Predictive Power of the Term Spread: A Structural Interpretation”

Numerous studies have found the term spread to be a significant predictor of future real output growth. However, in the case of the US, the term spread’s predictive power has diminished from the mid-1980s till present. This paper provides new evidence to the debate on why the term spread leads output growth. We do this by structurally accounting for the decline in the predictive power of the US term spread. Our findings indicate that it is changes to the composition of shocks hitting the US economy which causes the term spread, through the endogenous monetary policy response, to cease being a useful indicator of future output growth.

13:30-13:55 Sevgi Coskun

“Non-stationary Hours and Technology Shocks in Developing Economies”

We examine the impact that labor supply (LS) shocks and technology shocks (TS) have in a bivariate VAR that includes hours worked and real GDP in developing countries and US for the period 1970-2013. These two variables have trends that make them non-stationary. Hence, we first estimate Structural VARs with a differenced specification of hours (DSVAR) using long run restriction. Our identification works as follow: (1) Only LS shocks have a permanent effect on hours in the long run (2) Both shocks have a long run impact on GDP. We second modify a standard DSGE model by incorporating permanent labor supply shocks that can generate a unit root in hours worked. To properly compare empirical impulse responses based on the actual data to impulse responses from DSVARs run on the simulated data from the model, we treat the model’s data and actual data symmetrically. The results simply reflect the fact that our model can produce time series for GDP that have similar patterns to those in developing countries. However, it cannot reproduce the impulse response of hours after a technology shock for many developing countries while it can generate the response of hours after a labor supply shock.
14:05-14:30 Ben Caswell

“Endogenous Fiscal Policy with Public Infrastructure Spending”

This paper aims to analyse fiscal policy through a simple model where the government is a provider of public inputs which enter into the production technology. A source of motivation for the investigation of fiscal policy and public investment is the zero-lower bound and the potential exhaustion of monetary policy as an effective macro stabilisation tool. Increasingly, many governments in developed countries have recently turned to fiscal policy and suggested undertaking large-scale infrastructure investment projects; this underscores the need for a further investigation of fiscal policy and public investment in a general equilibrium context. This paper also touches upon the optimal taxation literature and revisits whether the important result of a zero-capital tax of Judd (1985) and Chamley (1968) also holds in a setting where public goods enter as an input into the production technology.

14:30-14:55 Tehseen Iqbal

“Macroeconomic impacts of Fiscal Policy Shocks in the presence of Informal Market”

Presence of informal sector amplifies or mitigates the effects of different policies shocks. Moreover, change in expenditure or distortionary tax instruments can reallocate the productive resources of formal and informal sector. In my first chapter I will analyze the impact of five fiscal policy instruments on the dynamics of key macroeconomics variables in the presence of informal labor and good markets in NK-DSGE framework. I will study the importance of different fiscal policy rules in determining the size of multiplier and their role in fiscal consolidation. This paper will also address the implication of productive and non-productive government spending in economies with segmented markets. Fiscal policy instruments used in my research are government consumption, government investment, and distortionary taxes such that labor, consumption and capital taxes.

14:55-15:20 Gustavo Mellior

“Endogenizing Bankruptcy in an HACT Model”

This presentation introduces bankruptcy in a pure Huggett heterogeneous agent in continuous time (HACT) economy. The wealth distribution of the benchmark Huggett model is compared to that of two variants: one where default is random (a Poisson process) and another where default is endogenous (modeled as a real option). Sensitivity analysis shows that agents will be more willing to engage in default the faster bankruptcies are forgotten and the less harsh the "autarky" punishment is.
Session II. Grimond Lecture Theatre 3, 16:00-17:50

16:00-16:25 Phillip Dueber

“Volatility Driven Capital Flows in Emerging Market Economies”

In the recent past gross capital inflows and outflows into many emerging market economies increased massively and were characterized by large deviations from the long term trend. This paper analyzes these cyclical fluctuations from the perspective of changes in macroeconomic volatility. The first part estimates an open economy dynamic stochastic general equilibrium model with stochastic volatility shocks in TFP and investment efficiency 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 volatility shocks on Mexican gross capital flows. Both the DSGE model and the SVAR with sign restrictions are able to generate a negative effect of capital inflows and a positive effect on capital outflows after a shock in domestic stochastic volatility.

16:25-16:50 Sashana Whyte

“The Impact of Export Earnings Instability on Economic Growth in the Caribbean.”

This paper contributes to the literature by examining the effects of export earnings instability on economic growth in a select group of Caribbean countries. There are a number of reasons for choosing to investigate these issues in the context of the Caribbean. First, the region is highly dependent on the earnings from export of goods and services. Second, the Caribbean is very heterogeneous, with countries that have different economic structures. For example, there are countries that are predominantly commodity exporters, some that are services dependent and others that belong to a currency union. Thus, export earnings instability may affect each country differently. The main results can be summarized as follows. First, panel data estimation shows that export earnings instability does have a negative and significant effect on growth in real GDP per capita. Second, time series analysis for individual countries shows mixed results for the impact of export earnings instability on economic growth for the sample of 15 Caribbean countries examined. Export earnings instability exhibits a negative relationship with per capita GDP growth in 13 of the 15 Caribbean countries, including 5 of the 6 ECCU countries, the Bahamas, Barbados, Belize, Dominican Republic, Guyana, Jamaica, Suriname and Trinidad and Tobago. Of the 13 countries for which the effect of export earnings instability is negative, the effect is statistically significant in the Bahamas, the Dominican Republic, Grenada, Jamaica and St. Kitts and Nevis. Insignificant positive effects are observed in Dominica and Haiti. Third, economic growth in the Caribbean is mainly determined by investment and the growth of export of goods and services.

17:00-17:25 Jungu Yang

“Bank Liquidity, Securitization, and the Efficacy of Monetary Policy”

Applying the Lucas island model and the random-relocation model, a general equilibrium model is made to derive the following results: (1) Expansionary monetary policy can affect
the bank's portfolio composition, but this outcome depends on the magnitude of the elasticity of substitution coefficients. (2) A randomised monetary policy combined with other real shocks cause banks to suffer from a signal extraction problem. (3) The amount of liquid assets held by the whole economy, as well as the regions where securitization is present, decreases significantly with securitization. As the economy can invest its resources more efficiently, both consumption and welfare increase. The impact of securitization on banks' liquidity, consumption, and welfare, however, depend on the population structure of each region. This result may have important policy implications with regards to the effect of global asset shortages on bubbles and global imbalances.

17:25-17:50 Luke Buchanan-Hodgman

“Macro-prudential Policies in a DSGE model with Banking”

Abstract To Be Added