

Contents

List of Contributors	xv
-----------------------------------	-----------

Quantitative Economic Policy – Theory and Applications: Introduction and Overview	1
--	----------

Reinhard Neck, Christian Richter and Peter Mooslechner

1 Andrew Hughes Hallett at sixty	1
2 The theory of quantitative economic policy and its applications	2
3 The challenge of policy coordination in the EMU and beyond	4
4 Overview of the contributions to the <i>Festschrift</i>	8
5 Concluding remarks	13
References	13

Theory of Quantitative Economic Policy

Towards a New Theory of Economic Policy: Continuity and Innovation.....	15
--	-----------

Nicola Acocella and Giovanni Di Bartolomeo

1 Introduction	15
2 The Tinbergen-Theil approach and the Lucas critique	16
2.1 The classical approach to the theory of economic policy	16
2.2 Critique of the classical theory of economic policy	18
2.3 Policy games and the neutrality proposition	18
3 Towards a “new” theory	20
3.1 Two fundamental propositions	20
3.2 Extensions	22
4 Conclusions	23
Appendix	24
A.1 The static case	24
A.2 The dynamic case	27
Acknowledgement	30
References	31

If the Representative Agent is Used, Should He Be Believed? Aggregation, Welfare and the Role of Microfoundations in Quantitative Economic Policy.....	35
<i>John Lewis</i>	
1 Introduction	35
2 Unrealistic assumptions in economics.....	37
3 Assumption creep	41
4 The problem of appraisal.....	44
5 Conclusion	47
Disclaimer.....	48
References	48
Time Consistency, Subgame Perfectness, Solution Concepts and Information Patterns in Dynamic Models of Stabilization Policies	51
<i>Engelbert J. Dockner and Reinhard Neck</i>	
1 Introduction	51
2 The analytical framework	52
2.1 A dynamic model of decentralized stabilization policies	52
2.2 Solution concepts and properties of equilibrium solutions.....	57
3 Open-loop equilibrium solutions	65
3.1 The open-loop Nash equilibrium solution	65
3.2 The open-loop Stackelberg equilibrium solution	66
3.3 (Open-loop) Pareto solutions.....	69
4 Feedback equilibrium solutions	72
4.1 The feedback Nash equilibrium solution.....	72
4.2 The feedback Stackelberg equilibrium solution	75
4.3 Some remarks on the “Cohen-Michel solution”	76
5 A numerical example.....	78
6 Concluding remark	82
Appendix	83
A.1 Proof of Theorem 1.....	83
A.2 Proof of Theorem 2.....	87
A.3 Proof of Theorem 3.....	92
A.4 Proof of Theorem 5.....	94
A.5 Proof of Theorem 6.....	96
A.6 Proof of Theorem 7.....	97
Acknowledgement	99
References	99

Models of Endogenous Coalition Formation Between Fiscal and Monetary Authorities in the Presence of a Monetary Union 103
Tomasz Michalak, Jacob Engwerda, Joseph Plasmans, Bas van Aarle and Giovanni Di Bartolomeo

1 Introduction	103
2 Basic definitions and notation	105
2.1 Per-membership partition function.....	107
2.2 Externalities from coalition formation.....	108
3 Simultaneous games – MU setting	109
3.1 Open-membership game.....	109
3.2 Restricted open-membership game.....	111
3.3 Exclusive-membership game for an MU	112
3.4 Relations between the <i>OMG(MU)</i> , the <i>ROMG(MU)</i> and the <i>EMG(MU)</i>	114
4 Sequential negotiation game.....	114
5 Social optimum and indices.....	117
6 Aspects of policy coordination in EMU	119
7 The basic economic framework	122
8 Numerical solutions of the model.....	123
8.1 Symmetric baseline model.....	124
8.2 Structural asymmetric setting	131
9 Concluding remarks.....	133
References	135

Fiscal Policy

Fiscal Federalism, Risk Sharing and the Persistence of Shocks 137
Scott Davis

1 Introduction	137
2 The model	140
2.1 Preferences	141
2.2 Production technology	141
2.3 Resource constraints	142
2.4 Shock process	144
3 The results.....	145
3.1 Consumption volatility arising from output volatility	145
3.2 Pass through of output fluctuations to fluctuations in consumption	148
4 Summary and conclusions	150
Appendix	151

Acknowledgement	154
References	154
Debating Fiscal Federalism in EMU: Plus ça change.....	157
<i>Maria Demertzis</i>	
1 Introduction	157
2 Using the fiscal instrument	158
2.1 Stylised facts on the role of debt	158
2.2 Monetary and fiscal interdependencies	158
3 Describing fiscal federalism	160
3.1 Fiscal federalism in the US	161
3.2 How appropriate is the US as a yardstick of comparison for EMU?	168
4 Lessons for Europe	170
4.1 The role of fiscal policy in EMU	170
4.2 Is a “balanced-budget” rule feasible for Europe?	173
4.3 Does a single currency require fiscal federalism?	173
4.4 Fiscal federalism and EMU	175
4 Conclusions	179
Appendix	180
A.1 The balanced-budget rule in the US	180
A.2 Data sources	181
Acknowledgement	182
References	182
A Common Election Day for Euro-Zone Member States?	185
<i>Fritz Breuss</i>	
1 Introduction	185
2 Empirical implications of models of politico-economic cycles	186
2.1 The theoretical models	187
2.2 Empirical results	192
3 The costs and benefits of a common election day in EMU	198
3.1 A Politico-economic model for the Euro-zone	198
3.2 Simulation results	200
4 Conclusions	205
References	205
Automatic Stabilisers and Budget Rules	209
<i>Torben M. Andersen and Svend E. Hougaard Jensen</i>	
1 Introduction	209
2 The “consensus view” on fiscal policy design	210
3 Persistence in business cycle fluctuations	211

4 Diversification of temporary and persistent shocks.....	213
5 No fiscal rules without discretion.....	217
6 Conclusion and further perspectives.....	219
References	220

Monetary Policy

Domestic and International Determinants of the Bank of England's Liquidity Ratios during the Classical Gold Standard, 1876–1913: An Econometric Analysis	221
<i>Giuseppe Tullio and Jürgen Wolters</i>	
1 Introduction	221
2 The model	223
3 Description of the data used for estimation	225
4 The determinants of changes in the Bank of England's liquidity ratios	228
5 Summary of main results and conclusions	237
Acknowledgement.....	239
References	239
On the Transmission Mechanism of Monetary Policy	241
<i>Christian Richter</i>	
1 Introduction	241
2 A technical introduction to time-frequency analysis	242
3 Empirical results	246
3.1 Germany	246
3.2 United States.....	249
3.3 The UK	251
3.4 France	253
4 Conclusion	256
Acknowledgement	256
Appendix 1: Short-time Fourier transform	256
References	257
From the EMS to EMU: Has There Been Any Change in the Behaviour of Exchange Rate Correlation?	261
<i>Xiao-Ming Li</i>	
1 Introduction	261
2 Econometric methodology.....	264
3 Empirical results	266
4 Conclusion	271

References	272
Optimum Monetary Policy during Monetary Union Enlargement... 275	
<i>Ali Sina Önder</i>	
1 Introduction: review and motivation	275
2 The model	277
2.1 Assumptions and basics.....	277
2.2 Preferences	277
2.3 Supply side	279
2.4 Demand.....	279
2.5 First order conditions.....	280
3 Optimal inflation targeting with inertia	281
3.1 Enlargement of the currency union: observations and mechanics	284
3.2 Optimal target under monetary shocks and productivity shocks	286
4 Conclusion	286
Appendix	287
A.1	287
A.2	288
A.3	288
References	290
When the Dollar Falls..... 293	
<i>Simon Wren-Lewis</i>	
1 Introduction	293
2 The FABEER model.....	294
3 Why the US deficit is so large	296
4 When the dollar falls: some projections and ready reckoners	300
5 Conclusion	305
Appendix: The FABEER Model	306
Acknowledgement	307
References	307
Monetary Policy in a Small Open Economy with High Unemployment 309	
<i>Christopher Malikane and Willi Semmler</i>	
1 Introduction	309
2 A monetary model with endogenous capacity rate of employment.	312
3 Monetary policy rules	315
4 Estimation of the structural model.....	318
5 Monetary policy and macroeconomic performance	322

5.1 Evaluation of optimal policy rules.....	322
5.2 Simple policy rules for improved labor market performance	328
6 Conclusions	332
References	334
Uncertainties Surrounding Natural Rate Estimates in the G7.....	337
<i>Rod Cross, Julia Darby and Jonathan Ireland</i>	
1 Introduction	337
2 Uncertainties regarding natural rates	339
3 Methodology	341
4 Estimated confidence intervals for the G7.....	342
4.1 Benchmark specifications.....	344
4.2 Specification search and our preferred specifications	348
4.3 Discussion.....	349
5 Conclusion	353
Appendix	354
Acknowledgement	361
References	361
Index.....	365



<http://www.springer.com/978-3-540-74683-6>

Quantitative Economic Policy

Essays in Honour of Andrew Hughes Hallett

Neck, R.; Richter, C.; Mooslechner, P. (Eds.)

2008, XVIII, 376 p., Hardcover

ISBN: 978-3-540-74683-6