



Centre for Applied Macroeconomic Analysis

Research Program 2004-2005

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Centre for Applied Macroeconomic Analysis
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Centre for Applied Macroeconomic Analysis Research Programs

The research activities of the Centre are built around a series of Research Programs headed by a Program Director (or Directors). The Program Director is responsible for organizing research in a particular area. Proposals for new programs are welcome and are considered by the Executive Committee. Proposals should be directed to the Centre Director. It is envisaged that Programs will be for three years after which they will be reviewed. The Centre's Research Programs are:

- 1. International Finance and Economy**
- 2. Multi-Country Models and Methods**
- 3. Financial Markets and Macroeconomic Developments**
- 4. Macroeconomic Policy Frameworks**
- 5. Macro-econometric Models and Methods**
- 6. Managing Globalization**
- 7. Economic Growth and Development**
- 8. Macroeconomics and Longer Run Issues**

1. International Finance and Economy

Director: Professor Gordon DeBrouwer (Federal Treasury)

The Asia Pacific Program in International Finance and Economy researches key issues in international finance and economics in the Asia Pacific region. The Program focuses on four key issues. These include:

- policy dialogue and surveillance of macroeconomies in East Asia;
- regional and global financial cooperation and architecture in East Asia;
- financial markets, institutions and systems in the Asia Pacific, including the integration of financial markets, electronic finance, harmonization of financial systems, the role of capacity building in finance, and the nexus between finance and economic growth and development;
- macroeconomic analysis, policy and integration in the Asia Pacific, including exchange rate regimes, monetary and fiscal transmission and policy regimes, demographic change, labour markets, trade and investment, and the nexus between security and macroeconomics.

2. Multi-Country Models and Methods

Director: Professor Warwick McKibbin (The Australian National University)

Countries are linked through trade flows and asset markets. The modeling of these interactions has been undertaken in large scale model such as:

- Computable general equilibrium models (for trade);
- Large scale macro-econometric models (aggregated trade and capital flows);
- Inter-temporal general equilibrium models (trade detail and asset flows).

There is also an emerging literature of smaller theoretical simulation models particularly of real business cycle and new Keynesian theories which attempt to understand global interdependence better. This Program brings together researchers interested in the linkages between countries and how these linkages impact on our understanding of economic outcomes in small open and large open economies.

3. Financial Markets and Macroeconomic Developments

Director: Dr Mardi Dungey (University of Cambridge)

Financial market developments impact directly and indirectly on real economy outcomes, particularly in the short term. This Program brings together work on financial market interactions with an assessment of the impact of markets on the economy as a whole. The issues include:

- The link between international financial markets in transmitting shocks between economies. One important stream is understanding the different impacts which occur during 'normal' times, and during periods of financial stress.
- The operation of the financial markets in effectively transmitting policy signals to the real economy.
- The interaction between policy decisions, such as fiscal policy funding, and financial market development impacting on the real economy by changing the availability of funds and the liquidity of markets. We will pursue a fuller exploration of these linkages, particularly with the aim of forming linkages between financial markets participants and macroeconomic policy makers.

4. Macroeconomic Policy Frameworks

Director: Professor Viv Hall (Victoria University of Wellington)

Considerable progress has been made over the past twenty years in developing robust monetary and fiscal policy frameworks. For many countries these have been aimed at maintaining low and stable inflation over the medium term, and public debt sustainability over the medium to long term. Associated implications and areas of importance have been less well developed.

This Program brings together analytical and policy researchers interested in evaluating and advancing work in areas such as:

- The implications of medium-term fiscal and monetary policy frameworks for: the volatilities of output, interest rates and exchange rates; short run stabilisation policies; intergenerational balance; financial stability; and external stability;
- The role of governance procedures and associated institutional frameworks, in sustaining the credibility of fiscal and monetary policy frameworks, including the relative roles for policy coordination and operational independence, and the role of enforcement rules in fiscal policy frameworks;
- Macroeconomic policy frameworks for sustainable growth and employment;
- Appropriate policy frameworks for common currency regimes.

5. Macro-econometric Models and Methods

Directors: Professor Adrian Pagan (The Australian National University)
Dr Don Harding (University of Melbourne)

Models of the macro economy range from those which have a strong emphasis upon understanding the mechanisms that might be at work, and so tend to be towards the theoretical end of the spectrum, to those which are better regarded as purely statistical models that attempt to provide a close match to the data. Where the emphasis is placed by an investigator often depends upon the use to which they will be put.

The objective of the Program is to pursue research into the design of macro-econometric models, to develop techniques to assist in this process, to evaluate the finished product and to examine their role in forecasting and the analysis of economic processes.

The program includes:

- The link between theoretical and statistical models;
- Business cycles;
- Macroeconomic models used in the forecasting process;
- An investigation of VAR macroeconomic models.

6. Managing Globalization

Director: Professor David Vines (University of Oxford and The Australian National University)

The linkages between countries are influenced by their macroeconomic policies. These policies can be conducted so as to reduce risks and increase the likelihood of good outcomes.

The objective of this Program is to undertake research into design of policies in three areas. The first of these is the overall framework of macroeconomic policy, including the extent to which policy can influence exchange rates in a world of a high degree of capital mobility, and the integration of fiscal and monetary policy in the management of the economy. The second is the extent to which the financial system can be regulated so as to minimize the risk of currency and financial crises, and to lessen the costs of such crises as occur. The third is the way in which the liberalization of international trade can be managed so as to avoid the growth of preferential discrimination between countries, and the growth of discriminatory trading blocs.

Research in this Program will also be conducted into the connection between these areas: the extent to which trade liberalization strategies demand a change to exchange rate strategies, and the extent to which the need to minimize the risks of financial crises has implications for exchange rate strategies.

7. Economic Growth and Development

Director: Professor Raghbendra Jha (The Australian National University)

The Program focuses on the following key areas:

- Should short run macroeconomic models for developing countries be different from the received doctrine? Evaluation, critique and extensions of alternative models such as those due to structuralists and to IMF-type policy evaluations. Are there eclectic short-run macroeconomic models better suited for developing countries? Empirical evaluation of the performance of alternative short-run macroeconomic models.

- The political economy of the nexus between fiscal and monetary policy in developing countries. The interaction between a weak banking system, overly controlled central bank, excessive current government spending and poor tax design and administration. Early warning systems on potential crisis. The role of the exchange rate regime.
- The determinants of economic growth and developing countries. Can we identify policies that would enhance growth prospects for developing countries? What evidence relevant to developing countries does the experience of OECD countries in regard to long-term growth and medium-term fluctuation provide?
- The macroeconomics of reconstruction after war and other disasters. Anticipating and dealing with the economic consequence of 'hot spots' - mass migration in response to war, environmental disasters and the like.

8. Macroeconomics and Longer Run Issues

Directors: Dr Alexandra Sidorenko (The Australian National University)

Professor Warwick McKibbin (The Australian National University)

- This program covers a range of topics focusing on longer run issues in macroeconomics such as:

(a) Macroeconomics and Health

The Program focuses on macroeconomic approaches to measuring the economic burden of infectious diseases such as SARS, Avian Flu, Influenza, HIV/AIDS etc. It is becoming increasingly evident that modern epidemics create global economic shocks that by far exceed direct and indirect costs of treatment. The Program combines CGE and epidemiological modelling to study both short-and-long-run effects of the disease outbreak. Epidemiological models of disease dynamics will take into account an increased likelihood of contact with infected individuals from other areas as a result of trade in goods and services and of an increased factor mobility.

(b) Macroeconomics and Aging

Demographic change has important impacts on the macro economy through changes in labour supply, human wealth accumulation, consumption and saving decisions, asset accumulation, investment demand and adjustment of asset prices. There are also important impacts on fiscal positions and the balance of payments. The objective of this Program is to explore the macroeconomic implications of an aging society within a variety of modeling frameworks.

(c) Macroeconomics and the Environment

Environmental change has potentially significant macroeconomic impacts both directly through the links between the environment and economics activity and indirectly through the impact on the macro economy of policies aimed at environmental outcomes such as climate change policy. This sub-program explores the links between changes in the environment and macroeconomic outcomes.

Centre for Applied Macroeconomic Analysis Research Associates

1. International Finance and Economy

Professor Gordon DeBrouwer - Federal Treasury (Program Director)

Dr Prasanna Gai – The Australian National University

Mr Kang Yong Tan - The Australian National University

2. Multi-Country Models and Methods

Dr Ralph Bryant – Brookings Institution

Dr Timothy Kam - The Australian National University

Professor Warwick McKibbin - The Australian National University (Program Director)

Professor Jong-Wha Lee – Korea University

Professor Rod Tyers - The Australian National University

Professor Farshid Vahid - The Australian National University

Emeritus Professor Kenneth Wallis – University of Warwick

Professor Peter Wilcoxon – Syracuse University

Professor Wing Thye Woo – University of California, Davis

Mr Zavkijon Zavkiev - The Australian National University

3. Financial Markets and Macroeconomic Developments

Dr Kerim Peren Arin – Massey University

Dr Michelle Barnes – Federal Reserve Bank of Boston

Ms Edda Claus - The Australian National University

Dr Mardi Dungey – University of Cambridge (Program Director)

Dr Renee Fry - The Australian National University

Dr Aditya Goenka – National University of Singapore and University of Essex

Mr Timo Henckel - The Australian National University

Dr Vlad Pavlov – Queensland University of Technology

Professor Bruce Preston – Columbia University

Professor Peter Smith – University of York

Mr Patrice Yee - The Australian National University

4. Macroeconomic Policy Frameworks

Dr Iris Claus – New Zealand Treasury

Dr William Coleman - The Australian National University

Professor Viv Hall - Victoria University of Wellington (Program Director)

Dr Karen Mumford – University of York

Professor Jeffrey Sheen – University of Sydney

5. Macroeconometric Models and Methods

Professor Heather Anderson - The Australian National University

Professor Steve Dowrick - The Australian National University

Professor Graham Elliott – University of California, San Diego

Dr Don Harding - University of Melbourne (Program Co-Director)

Dr Zoe McHugh – Tactical Global Management Limited

Dr Gordon Menzies – University of Technology, Sydney

Professor Denise Osborn – University of Manchester

Professor Adrian Pagan - The Australian National University (Program Co-Director)

Dr Graeme Wells - The Australian National University

6. Managing Globalisation

Professor David Vines - University of Oxford and The Australian National University (Program Director)

7. Economic Growth and Development

Dr Jesus Felipe – Asian Development Bank

Professor Ross Guest – Griffith University

Professor Raghendra Jha - The Australian National University (Program Director)

Dr Ashley Lester – Massachusetts Institute of Technology

8. Macroeconomics and Longer Run Issues

Dr Robin Brooks – International Monetary Fund

Professor Bruce Chapman - The Australian National University

Professor Warwick McKibbin - The Australian National University (Program Co-Director)

Dr Alexandra Sidorenko - The Australian National University (Program Co-Director)

Ms Alison Stegman - The Australian National University

Centre for Applied Macroeconomic Analysis Working Papers

The Centre commenced its own Working Paper series in 2004. Research Associates regularly contribute to the series. Working Papers are available for download at the Centre's website.

List of 2004 Working Papers

- 1/2004: McKibbin WJ, Pearce D, and Stegman A *Long Run Projections for Climate Change Scenarios*
- 2/2004: Bond SA, Dungey M, and Fry R *A Web of Shocks: Crises Across Asian Real Estate Markets*
- 3/2004: Harding D, and Pagan A *Synchronization of Cycles*
- 4/2004: McKibbin WJ, and Nguyen J *Modelling Global Demographic Change: Results for Japan*
- 5/2004: Harding D, and Pagan A *A Suggested Framework for Classifying the Modes of Cycle Research*
- 6/2004: Jha R, and Longjam IS *Structure of Financial Savings During Indian Economic Reforms*
- 7/2004: Engel J, Haugh D, and Pagan A *Some Methods for Assessing the Need for Non-Linear Models in Business Cycle Analysis*
- 8/2004: Jha R *Macroeconomic Stabilization and Pro-Poor Budgetary Policy in the Globalized Economy*
- 9/2004: Felipe J, and McCombie JSL *Why are Some Countries Richer than Others? A Skeptical View of Mankiw-Romer-Weil's Test of the Neoclassical Growth Model*
- 10/2004: Felipe J, and McCombie JSL *On the Rental Price of Capital and the Profit Rate: The Perils and Pitfalls of Total Factor Productivity Growth*
- 11/2004: Felipe J, and Adams FG *"A Theory of Production" The Estimation of the Cobb-Douglas Function: A Retrospective View*
- 12/2004: Felipe J, and McCombie JSL *Is a Theory of Total Factor Productivity Really Needed?*
- 13/2004: Felipe J, Hasan R, and McCombie JSL *Correcting for Biases when Estimating Production Functions: An Illusion of the Laws of Algebra?*
- 14/2004: Lee JW, McKibbin WJ, and Park YC *Transpacific Trade Imbalances: Causes and Cures*

List of 2005 Working Papers

1/2005: Kapetanios G, Pagan A, and Scott A *Making a Match: Combining Theory and Evidence in Policy-Oriented Macroeconomic Modelling*

2/2005: Scheibe J, and Vines D *A Phillips Curve for China*

3/2005: Haugh D *The Influence of Consumer Confidence and Stock Prices on the United States Business Cycle*

4/2005: Claus I *The Effects of Bank Lending in an Open Economy*

5/2005: Ang JB, and McKibbin WJ *Financial Liberalization, Financial Sector Development and Growth: Evidence from Malaysia*

6/2005: Felipe J *A Note on Competitiveness, Unit Labor Costs and Growth: Is "Kaldor's Paradox" a Figment of Interpretation?*

7/2005: Pagan A *Some Econometric Analysis of Constructed Binary Time Series*

8/2005: Stegman A *Convergence in Carbon Emissions Per Capita*

9/2005: Arin KP, and Koray F *Fiscal Policy and Economic Activity: U.S. Evidence*

10/2005: McKibbin WJ, And Stegman A *Convergence and Per Capita Emissions*