SELECTED READINGS

Focus on: Kenneth D. West

March 2011
INDEX

INTRODUCTION............................................................................................................. 7

1 WORKING PAPERS AND ARTICLES ........................................................................ 9


Selected Readings –March 2011


Selected Readings –March 2011 3
<table>
<thead>
<tr>
<th>Reference Number</th>
<th>Author(s) and Title</th>
<th>Publication Details</th>
</tr>
</thead>
</table>


2 CHAPTERS


3 BOOKS

INTRODUCTION

Kenneth D. West is the John D. MacArthur and Ragnar Frisch Professor of Economics at the University of Wisconsin-Madison and a research associate of the NBER (National Bureau of Economic Research) in the USA.

Kenneth West received a B.A. in Economics and Mathematics from Wesleyan University in 1973 and a Ph.D. in Economics from the Massachusetts Institute of Technology in 1983. He taught at Princeton University from 1983 to 1988 before coming to the University of Wisconsin in 1988. He has held Visiting Scholar positions at several central banks and at several branches of the U.S. Federal Reserve System.

Kenneth West is currently co-editor of the Journal of Money, Credit and Banking, and has previously served as co-editor of the American Economic Review.

He has published widely in the fields of macroeconomics, finance, international economics and econometrics.

His administrative positions include two terms as Chair of the Economics Department at the University of Wisconsin-Madison.

Honors include the John M. Stauffer National Fellowship in Public Policy at the Hoover Institution, Alfred P. Sloan Research Fellowship, Fellow of the Econometric Society, and Abe Fellowship.

He is perhaps best known for developing, with Whitney K. Newey, the Newey-West estimator, which robustly estimates the covariance matrix of a regression model when errors are heteroskedastic and autocorrelated.

The following list is a non-exhaustive, subjective selection of Kenneth D. West’s publications.

More information can be found at the address of Kenneth D. West’s homepage at:

http://www.ssc.wisc.edu/~kwest/.
Contact point: GianLuigi Mazzi, "Responsible for Euro-indicators and statistical methodology", Eurostat - D5 "Key Indicators for European Policies" gianluigi.mazzi@ec.europa.eu.
1 WORKING PAPERS AND ARTICLES


No abstract available.

Access to full text is restricted to subscribers:

http://www.aeaweb.org/articles.php?doi=10.1257/aer.100.2.562


We propose two new procedures for comparing the mean squared prediction error (MSPE) of a benchmark model to the MSPEs of a small set of alternative models that nest the benchmark. Our procedures compare the benchmark to all the alternative models simultaneously rather than sequentially, and do not require reestimation of models as part of a bootstrap procedure. Both procedures adjust MSPE differences in accordance with Clark and West (2007); one procedure then examines the maximum t-statistic, the other computes a chi-squared statistic. Our simulations examine the proposed procedures and two existing procedures that do not adjust the MSPE differences: a chi-squared statistic, and White’s (2000) reality check. In these simulations, the two statistics that adjust MSPE differences have most accurate size, and the procedure that looks at the maximum t-statistic has best power. We illustrate our procedures by comparing forecasts of different models for U.S. inflation.

Full text available at:


No abstract available.

Full text available at:

http://www.nber.org/chapters/c4075.pdf


We propose and evaluate a technique for instrumental variables estimation of linear models with conditional heteroskedasticity. The technique uses approximating parametric models for the projection of right hand side variables onto the instrument space, and for conditional heteroskedasticity and serial correlation of the disturbance. Use of parametric models allows one to exploit information in all lags of instruments, unconstrained by degrees of freedom limitations. Analytical calculations and simulations indicate that there sometimes are large asymptotic and finite sample efficiency gains relative to conventional estimators (Hansen (1982)), and modest gains or losses depending on data generating process and sample size relative to quasi-maximum likelihood. These results are robust to minor misspecification of the parametric models used by our estimator.

Access to full text is restricted to subscribers:

http://www.nber.org/


No abstract available.

Access to full text is restricted to subscribers:


No abstract available.

Access to full text is restricted to subscribers:

http://muse.jhu.edu/login?uri=/journals/journal_of_money_credit_and_banking/v038/38.4lam.pdf


Forecast evaluation often compares a parsimonious null model to a larger model that nests the null model. Under the null that the parsimonious model generates the data, the larger model introduces noise into its forecasts by estimating parameters whose population values are zero. We observe that the mean squared prediction error (MSPE) from the parsimonious model is therefore expected to be smaller than that of the larger model. We describe how to adjust MSPEs to account for this noise. We propose applying standard methods (West (1996)) to test whether the adjusted mean squared error difference is zero. We refer to nonstandard limiting distributions derived in Clark and McCracken (2001, 2005a) to argue that use of standard normal critical values will yield actual sizes close to, but a little less than, nominal size. Simulation evidence supports our recommended procedure.

Full text available at:

http://www.kansascityfed.org/Publicat/Reswkpap/PDF/RWP05-05.pdf


This paper explores ways to integrate model uncertainty into policy evaluation. We first describe a general framework for the incorporation of model uncertainty into standard econometric calculations. This framework employs Bayesian model averaging methods that have begun to appear in a range of economic studies. Second, we illustrate these general ideas in the context of assessment of simple monetary
policy rules for some standard New Keynesian specifications. The specifications vary in their treatment of expectations as well as in the dynamics of output and inflation. We conclude that the Taylor rule has good robustness properties, but may reasonably be challenged in overall quality with respect to stabilization by alternative simple rules that also condition on lagged interest rates, even though these rules employ parameters that are set without accounting for model uncertainty.

*Full text available at:*


We explore the link between an interest rate rule for monetary policy and the behavior of the real exchange rate. The interest rate rule, in conjunction with some standard assumptions, implies that the deviation of the real exchange rate from its steady state depends on the present value of a weighted sum of inflation and output gap differentials. The weights are functions of the parameters of the interest rate rule. An initial look at German data yields some support for the model.

*Access to full text is restricted to subscribers:*


Nominal exchange rates in low-inflation advanced countries are nearly random walks. Engel and West (2003a) offer an explanation for this in the context of models in which the exchange rate is determined as the discounted sum of current and expected future fundamentals. Engel and West show that if the fundamentals are I (1), then as the discount factor approaches one, the exchange rate becomes indistinguishable from a random walk. An alternative explanation for the random-walk behavior of exchange rates is that there are some unobserved variables that drive exchange rates that follow near random walks. This paper takes the approach that both explanations are possible.
We are able to measure how much of exchange-rate variation could be accounted for by the Engel-West explanation, despite the fact that we do not observe the information set of financial markets. We find that the observable fundamentals (money, income, prices, interest rates) may account for about 40 percent of the variance of changes in exchange rates under the assumption of discount factors near unity.

*Access to full text is restricted to subscribers:*

http://www.nber.org/


We consider using out of sample mean squared prediction errors (MSPEs) to evaluate the null that a given series follows a zero mean martingale difference against the alternative that it is linearly predictable. Under the null of zero predictability, the population MSPE of the null “no change” model equals that of the linear alternative. We show analytically and via simulations that despite this equality, the alternative model’s sample MSPE is expected to be greater than the null’s. We propose and evaluate an asymptotically normal test that properly accounts for the upward shift of the sample MSPE of the alternative model. Our simulations indicate that our proposed procedure works well.

*Full text available at:*

http://www.kc.frb.org/Publicat/Reswkpap/pdf/rwp04-03.pdf


Japan has seen episodes in which boom and bust in land prices is accompanied by boom and bust in business fixed investment. We develop a model that includes land in the production function. We show that in this model movements in land prices will be associated with movements of the capital stock in the same direction, provided the elasticity of substitution between land and capital is greater than one. We then
estimate an aggregate investment function. Consistent with an elasticity greater than one, increases in land prices are associated with increases in the business capital stock even after controlling for movements in output and the cost of capital; decreases have a symmetric effect. In the end, however, we find that movements in land prices explain relatively little of the movement in the business fixed investment. In addition to possibly indicating that the elasticity is very near one, the small effect may result because of difficulty in extracting information from noisy land prices, neglect of the effects of regulations, and failure to consider credit constraints.

Access to full text is restricted to subscribers:

http://www.nber.org/


The relationship between interest rates and exchange rates is puzzling and poorly understood. But under some standard assumptions, interest rates can be adjusted to smooth real exchange rate movements at the possible price of increased volatility in other variables. Estimates made under some generous suppositions about what monetary policy is able to accomplish suggest that decreasing real exchange rate volatility by about 25 per cent would require increasing output volatility by about 10-15 per cent, inflation volatility by about 0-15 per cent and interest rate volatility by about 15-40 per cent.

Full text available at:


Standard economic models hold that exchange rates are influenced by fundamental variables such as relative money supplies, outputs, inflation rates and interest rates. Nonetheless, it has been well documented that such variables little help predict changes in floating exchange rates - that is, exchange rates follow a random walk. We show that the data do exhibit a related link suggested by standard models - that the
exchange rate helps predict fundamentals. We also show analytically that in a rational expectations present value model, an asset price manifests near random walk behavior if fundamentals are I (1) and the factor for discounting future fundamentals is near one. We suggest that this may apply to exchange rates.

Full text available at:


No abstract available.

Full text available at:

http://www.brookings.edu/~media/Files/Programs/ES/BPEA/2003_1_bpea_papers/2003a_bpea_brock.pdf


No abstract available.

Access to full text is restricted to subscribers:


No abstract available.

Access to full text is restricted to subscribers:


No abstract available.

In many time series models, an infinite number of moments can be used for estimation in a large sample. I supply a technically undemanding proof of a condition for optimal instrumental variables use of such moments in a parametric model. I also illustrate application of the condition in estimation of a linear model with a conditionally heteroskedastic disturbance.


This paper considers regression-based tests for encompassing, when none of the models under consideration encompasses all the other models. For both in- and out-of-sample applications, I derive asymptotic distributions and propose feasible procedures to construct confidence intervals and test statistics. Procedures that are asymptotically valid under the null of encompassing (e.g., Davidson and MacKinnon (1981)) can have large asymptotic and finite sample distortions. Simulations indicate that the proposed procedures can work well in samples of size typically available, though the divergence between actual and nominal confidence interval coverage sometimes is large.

We develop regression-based tests of hypotheses about out of sample prediction errors. Representative tests include ones for zero mean and zero correlation between a prediction error and a vector of predictors. The relevant environments are ones in which predictions depend on estimated parameters. We show that standard regression statistics generally fail to account for error introduced by estimation of these parameters. We propose computationally convenient test statistics that properly account for such error. Simulations indicate that the procedures can work well in samples of size typically available, although there sometimes are substantial size distortions.

Access to full text is restricted to subscribers:

http://www.nber.org/


A T-consistent estimator of a heteroskedasticity and autocorrelation consistent covariance matrix estimator is proposed and evaluated. The relevant applications are ones in which the regression disturbance follows a moving average process of known order. In a system of l equations, this ‘AM-l’ estimator entails estimation of the moving average coefficients of an l-dimensional vector. Simulations indicate that the MA-l estimator's finite sample performance is better than that of the estimators of Andrews and Monahan (1992) and Newey and West (1994) when cross-products of instruments and disturbances are sharply negatively autocorrelated, comparable or slightly worse otherwise.

Access to full text is restricted to subscribers:


Using a dynamic linear equation that has a conditionally homoskedastic moving average disturbance, we compare two parameterizations of a commonly used instrumental variables estimator (Hansen (1982)) to one that is asymptotically optimal in a class of estimators that includes the conventional one (Hansen (1985)). We find that for some plausible data generating processes, the optimal one is distinctly more efficient asymptotically. Simulations indicate that in samples of size typically available, asymptotic theory describes the distribution of the parameter estimates reasonably well, but that test statistics sometimes are poorly sized.

Access to full text is restricted to subscribers:

http://www.nber.org/

We propose a nonparametric method for automatically selecting the number of autocovariances to use in computing a heteroskedasticity and autocorrelation consistent covariance matrix. For a given kernel for weighting the autocovariances, we prove that our procedure is asymptotically equivalent to one that is optimal under a mean squared error loss function. Monte Carlo simulations suggest that our procedure performs tolerably well, although it does result in size distortions.

Access to full text is restricted to subscribers:

http://www.nber.org/

We compare the out-of-sample forecasting performance of univariate homoskedastic, GARCH, autoregressive, and nonparametric models for conditional variances, using five bilateral weekly exchange rates for the dollar, 1973–1989. For a one-week horizon, GARCH models tend to make slightly more accurate forecasts. For longer horizons, it is difficult to find grounds for choosing between the various models. None of the models perform well in a conventional test of forecast efficiency.

Access to full text is restricted to subscribers:


This paper develops procedures for inference about the moments of smooth functions of out of sample predictions and prediction errors, when there is a long time series of predictions and realizations, and each prediction is based on regression parameters estimated from a long time series. The aim is to provide tools for inference about predictive accuracy and efficiency, and, more generally, about predictive ability. The paper allows for nonlinear models and estimators, as well as for possible dependence of predictions and prediction errors on estimated regression parameters. Simulations indicate that the procedures work well.

Full text available at:


Smooth functions of out of sample predictions and prediction errors, when there is a long time series of predictions and realizations, and each prediction is based on regression parameters estimated from a long time series. The aim is to provide tools for inference about predictive accuracy and efficiency, and, more generally, about
predictive ability. The paper allows for nonlinear models and estimators, as well as for possible dependence of predictions and prediction errors on estimated regression parameters. Simulations indicate that the procedures work well. This additional appendix contains material omitted from the body of the paper to save space; additional simulation results, proofs, and additional references.

Full text available at:

http://ideas.repec.org/p/wpa/wuwpma/9410003.html


We summarize some recent work of ours on estimation and hypothesis testing on the parameters of the linear-quadratic inventory model. For some data-generating processes calibrated to estimates from some existing studies, this work uses (1) asymptotic theory to compare alternative estimators on the basis of the asymptotic efficiency of parameter estimates, (2) asymptotic theory and simulations to consider how likely one will be to get sharp estimates of the parameters of the model, and (3) simulations to see how accurately sized are hypothesis tests about the parameters of the model.

Access to full text is restricted to subscribers:


No abstract available.

Access to full text is restricted to subscribers:


The authors propose a nonparametric method for automatically selecting the number of autocovariances to use in computing a heteroskedasticity and autocorrelation consistent covariance matrix. For a given kernel for weighting the autocovariances, they prove that their procedure is asymptotically equivalent to one that is optimal under a mean-squared error loss function. Monte Carlo simulations suggest that the authors' procedure performs tolerably well, although it does result in size distortions.

Access to full text is restricted to subscribers:

http://www.jstor.org/


We evaluate some aspects of the finite sample distribution of an instrumental variables estimator of a first order condition of the Holt et al. (1960) linear quadratic inventory model. We find that for some but not all empirically relevant data generating processes and sample sizes, asymptotic theory predicts a wide dispersion of parameter estimates, with a substantial finite sample probability of estimates with incorrect signs. For such data generating processes, simulation evidence suggests that different choices of left hand side variables often produce parameter estimates of an opposite sign. More generally, while the asymptotic theory often provides a good approximation to the finite sample distribution, sometimes it does not.

Access to full text is restricted to subscribers:

http://www.nber.org/

When estimates of variances are used to make asset allocation decisions, underestimates of population variances lead to lower expected utility than equivalent overestimates: a utility based criterion is asymmetric, unlike standard criteria such as mean squared error. To illustrate how to estimate a utility based criterion, we use five bilateral weekly dollar exchange rates, 1973-1989, and the corresponding pair of Euro deposit rates. Of homoskedastic, GARCH, autoregressive and nonparametric models for the conditional variance of each exchange rate, GARCH models tend to produce the highest utility, on average. A mean squared error criterion also favors GARCH, but not as sharply.

*Full text available at:*


Econometric aspects of recent research on inventory models are surveyed. The discussion emphasizes issues relevant to instrumental variables estimation of a first order condition of the Holt et al. (1960) linear quadratic inventory model, including choice of instruments, covariance matrix estimation, methods for testing, and implications of unit root nonstationarity. The paper also briefly discusses estimation of a decision rule implied by the model, and, finally, the implications for inventory models of some stylized facts about inventories.

*Access to full text is restricted to subscribers:*

http://www.nber.org/


A simple real model is used to decompose movements of aggregate inventories and output in Japan during 1975 to 1987 to three components, one due to cost shocks, one
due to demand shocks, and one due to shocks from abroad. Cost shocks are estimated to account for about one tenth of the movement in GNP, one half of the movement in inventories. Most of the remaining movement in GNP is due to demand shocks, in inventories to shocks from abroad. Confidence intervals around these point estimates are, however, very large.

Access to full text is restricted to subscribers:


No abstract available.

Access to full text is restricted to subscribers:


This paper compares the cyclical and secular behavior of Japanese and U.S. inventories at the aggregate and sectoral level, 1967-1987. While, as is well known, U.S. inventories are sharply procyclical, Japanese inventories are only mildly procyclical. In neither country do inventory and sales move together in the long run, in the sense that the two series do not seem to be cointegrated. In Japan, but not in the U.S., there is a secular decline in the inventory-sales ratio.

Access to full text is restricted to subscribers:

http://www.nber.org/


A simple real linear-quadratic inventory model is used to determine how cost and demand shocks interacted to cause fluctuations in aggregate inventories and GNP in the United States, 1947-86. Cost shocks appear to be the predominant source of
fluctuations in inventories and are largely, though not exclusively, responsible for the fact that GNP is more variable than final sales. Cost and demand shocks are of roughly equal importance for GNP. These estimates, however, are imprecise. With different, but plausible, values for a certain target inventory-sales ratio, cost shocks are less important than demand shocks for GNP fluctuations.

Access to full text is restricted to subscribers:

http://www.jstor.org/


Casual examination of annual postwar data on inventories and aggregate output for seven developed countries - Canada, France, West Germany, Italy, Japan, United Kingdom, United States - suggests that in these countries the primary function of aggregate inventories is not to smooth aggregate output in the face of aggregate demand shocks. Japan is a possible exception to this generalization.

Access to full text is restricted to subscribers:


Empirical examination of some aggregate manufacturing data suggests that order backlogs may help explain two puzzling facts: (1) the variability of production appears to be greater than that of demand, and (2) inventories appear to be drawn down when demand is low, built up when demand is high.

Access to full text is restricted to subscribers:

http://www.nber.org/


It is shown that GNP will have an autoregressive root very close to unity in a variant of Taylor's (1980a, b) overlapping wage contracts model, for stylized versions of
simple money supply rules and plausible values for the model's parameters. In this variant, monetary policy is the only reason for serial correlation in GNP. It is premature, therefore, to conclude, as some authors, have, that the presence of such a root in U.S. GNP is inconsistent with either a stationary natural rate or with nominal shocks playing a major role in the business cycle.

Access to full text is restricted to subscribers:

http://www.nber.org/


This is a summary and interpretation of some of the literature on stock price volatility that was stimulated by Leroy and Porter (1981) and Shiller (1981a). It appears that neither small sample bias, rational bubbles nor some standard models for expected returns adequately explain stock price volatility. This suggests a role for some nonstandard models for expected returns. One possibility is "fads" models in which noise trading by naive investors is important. At present, however, there is little direct evidence that such fads play a significant role in stock price determination.

Access to full text is restricted to subscribers:

http://www.nber.org/


Hansen and Sargent (1981b) discussed instrumental variables procedures for estimating linear rational expectations models, under the assumption that all variables have zero unconditional means. This note points out two implications if variables instead have nonzero unconditional means: first, there are additional restrictions beyond those noted by Hansen and Sargent (1981b), and second, imposing these restrictions results in more efficient estimates of the parameters that are the focus of Hansen and Sargent (1981b). Explicit formulas are given for the restrictions generated by some commonly assumed deterministic terms.

This paper uses a variance bounds test to see whether consumption is too sensitive to news about income to be consistent with a standard permanent income model, under the maintained hypothesis that income has a unit root. It is found that, if anything, consumption is less sensitive than the model would predict. This implication is robust to the representative consumer having private information about his future income that the econometrician does not have, to wealth shocks, and to transitory consumption. This suggests the importance in future research on the model of allowing for factors that tend to make consumption smooth.

Access to full text is restricted to subscribers:

http://www.nber.org/


We use recent research on estimation and testing in the presence of unit roots to argue that Hall's (1978) t and F tests of whether consumption is predicted by lagged income, or by lags of consumption beyond the first, are asymptotically valid. A Monte Carlo experiment suggests that the asymptotic t and F distributions provide a good approximation to the actual finite sample distribution.

Access to full text is restricted to subscribers:

http://www.nber.org/


This paper establishes an inequality that may be used to test the null hypothesis that a stock price equals the expected present discounted value of its dividend stream, with a
constant discount rate. The inequality states that if this hypothesis is true, the variance of the innovation in the stock price is bounded above by a certain function of the variance in the innovation in the dividend. The bound is valid even if prices and dividends are nonstationary. The inequality is used to test the null hypothesis, for some long term annual U.S. stock price data. The null is decisively rejected, with the stock price innovation variance exceeding its theoretical upper bound by a factor of as much as twenty. The rejection is highly significant statistically. Regression diagnostics and some informal analysis suggest that the results are more consistent with there being speculative bubbles in the U.S. stock market than with a failure of the rational expectations or constant discount rate hypothesis.

Access to full text is restricted to subscribers:

http://www.nber.org/


The set of parameters needed to calculate the expected present discounted value of a stream of dividends can be estimated in two ways. One may test for speculative bubbles, or fads, by testing whether the two estimates are the same. When the test is applied to some annual U.S. stock market data, the data usually reject the null hypothesis of no bubbles. The test is of general interest since it may be applied to a wide class of linear rational expectations models.

Access to full text is restricted to subscribers:

http://www.nber.org/


Under fairly general conditions, ordinary least squares and linear instrumental variables estimators are asymptotically normal when a regression equation has nonstationary right hand side variables. Standard formulas may be used to calculate a consistent estimate of the asymptotic variance-covariance matrix of the estimated parameter vector, even if the disturbances are conditionally heteroskedastic and
autocorrelated. So inference may proceed in the usual way. The key requirements are 
that the nonstationary variables share a common unit root and that the unconditional 
mean of their first differences is nonzero.

*Access to full text is restricted to subscribers:*

http://www.jstor.org/

Behavior in GNP," American Economic Review, American Economic 

No abstract available.

*Access to full text is restricted to subscribers:*

http://www.jstor.org/

Efficient Method of Moments Estimation," International Economic 
Review, Department of Economics, University of Pennsylvania and Osaka 
28(3), pages 777-87, October.

Efficient method of moments estimation techniques include many commonly used 
techniques, including ordinary least squares, two- and three-stage least squares, quasi 
maximum likelihood, and versions of these for nonlinear environments. For models 
estimated by any efficient method of moments technique, the authors define 
analogues to the maximum likelihood based Wald, likelihood ratio, Lagrange 
multiplier, and minimum chi-squared statistics. They prove the mutual asymptotic 
equivalence of the four in an environment that allows for disturbances that are auto 
correlated and heteroskedastic. They also describe a very convenient way to test a 
linear hypothesis in a linear model.

*Access to full text is restricted to subscribers:*

http://www.jstor.org/

Two least squares tests for a unit autoregressive root are inconsistent if the process being studied is stationary around a time trend, and a time trend is not included as a regressor.

Access to full text is restricted to subscribers:


This paper uses a novel test to see whether the Meese (1985) and Woo (1985) models are consistent with the variability of the deutschmark-dollar exchange rate 1974–84. The answer, perhaps surprisingly, is yes. Both models, however, explain the month-to-month variability as resulting in a critical way from unobservable shocks to money demand and purchasing power parity. It would therefore be of interest in future work to model one or both of these shocks as explicit functions of economic variables.

Access to full text is restricted to subscribers:


No abstract available.

Access to full text is restricted to subscribers:
http://www.jstor.org/


This paper compares numerically the asymptotic distributions of parameter estimates and test statistics associated with two estimation techniques: (a)a limited information one, which uses instrumental variables to estimate a single equation (Hansen and
Singleton (1982)), and (b) a full information one, which uses a procedure asymptotically equivalent to maximum likelihood to simultaneously estimate multiple equations (Hansen and Sargent (1980)). The paper compares the two with respect to both (1) asymptotic efficiency under the null hypothesis of no misspecification, and (2) asymptotic bias and power in the presence of certain local alternatives. It is found that: (1) Full information standard errors are only moderately smaller than limited information standard errors. (2) When the model is misspecified, full information tests tend to be more powerful, and its parameter estimates tend to be more biased. This suggests that at least in the model considered here, the gains from the use of the less robust and computationally more complex full information technique are not particularly large.

Access to full text is restricted to subscribers:

http://www.nber.org/


This paper compares nominal income and monetary targets in a standard aggregate demand - aggregate supply framework. If the desirability of policies is measured by their effect on the unconditional variance of output, nominal income targeting is preferable if and only if the aggregate elasticity of demand for real balances is greater than one. This is precisely the opposite of the condition that in Bean (1984) is sufficient to make nominal income targeting preferable. This points out the importance of specification of supply and of objective function in work on nominal income targeting.

Access to full text is restricted to subscribers:

http://www.nber.org/

This paper describes a simple method of calculating a heteroskedasticity and autocorrelation consistent covariance matrix that is positive semi-definite by construction. It also establishes consistency of the estimated covariance matrix under fairly general conditions.

Full text available at:

http://www.nber.org/


This paper uses a novel test to see whether the Herse (1985) and Woo (1985) models are consistent with the variability of the deutschemark - dollar exchange rate 1974-1984. The answer, perhaps surprisingly, is yes. Both models, however, explain the month to month variability as resulting in a critical way from unobservable shocks to money demand and purchasing power parity. It would therefore be of interest in future work to model one or both of these shocks as explicit functions of economic variables.

Access to full text is restricted to subscribers:

http://www.nber.org/


This paper develops and applies a novel test of the Holt, et al. (1961) linear quadratic inventory model. It is shown that a central property of the model is that a certain weighted sum of variances and covariances of production, sales and inventories must be nonnegative. The weights are the basic structural parameters of the model. The model may be tested by seeing whether this sum in fact is nonnegative. When the test
is applied to some non-durables data aggregated to the two-digit SIC code level, it almost always rejects the model, even though the model does well by traditional criteria.

Access to full text is restricted to subscribers:

http://www.nber.org/


One dollar of finished goods inventories does not represent the same amount of physical goods as one dollar of sales, when Department of Commerce constant dollar series are used. This can cause seriously biased regression estimates.

Access to full text is restricted to subscribers:

2 CHAPTERS


No abstract available.

Full text available at:
http://www.nber.org/chapters/c12200.pdf


No abstract available.

Full text available at:
http://www.nber.org/chapters/c8240.pdf


This chapter summarizes recent literature on asymptotic inference about forecasts. Both analytical and simulation based methods are discussed. The emphasis is on techniques applicable when the number of competing models is small. Techniques applicable when a large number of models is compared to a benchmark are also briefly discussed.

Access to full text is restricted to subscribers:


No abstract available.
Selected Readings –March 2011 34

Full text available at:

http://www.nber.org/chapters/c11273.pdf


No abstract available.

Full text available at:

http://www.nber.org/chapters/c0354.pdf


No abstract available.

Full text available at:

http://www.nber.org/chapters/c9645.pdf


We review and interpret recent work on inventories, emphasizing empirical and business cycle aspects. We begin by documenting two empirical regularities about inventories. The first is the well-known one that inventories move procyclically. The second is that inventory movements are quite persistent, even conditional on sales. To consider explanations for the two facts, we present a linear-quadratic model. The model can rationalize the two facts in a number of ways, but two stylized explanations have the virtue of relative simplicity and support from a number of papers. Both assume that there are persistent shocks to demand for the good in question, and that marginal production cost slopes up. The first explanation assumes as well that there are highly persistent shocks to the cost of production. The second assumes that there are strong costs of adjusting production and a strong accelerator motive. Research to date, however, has not reached a consensus on whether one of these two, or some third, alternative provides a satisfactory explanation of inventory behavior. We
suggest several directions for future research that promise to improve our understanding of inventory behavior and thus of business cycles.

*Access to full text is restricted to subscribers:*


No abstract available.

*Full text available at:*

http://www.nber.org/chapters/c7461.pdf
3 BOOKS


The NBER International Seminar on Macroeconomics brings together leading American and European economists to discuss a broad range of current issues in global macroeconomics. An international companion to the more American-focused NBER Macroeconomics Annual, this particular volume offers cutting-edge research on monetary and fiscal policy responses to macroeconomic fluctuations, with special emphasis on tailoring a single monetary policy for the diverse economies that make up the European Monetary Union. The individual papers examine such topics as whether rule-based monetary policy should target price levels or inflation rates; how much cyclical correlation across countries can be attributed to transmission between multinational companies and their international affiliates; the different effects of monetary policy in high-debt and low-debt countries; and the prospects for the ten 2004 entrants to the European Union, based on the experiences of EU entrants of the 1980s.