The Research and Market Analysis Group produces a wide range of publications and other research of interest to readers. Each underscores our commitment to share with you information of timely business, academic, and policy importance.

These include:

The Economic Policy Review—our flagship publication—is a policy-oriented research journal focusing on macroeconomic, banking, and financial market topics.

Current Issues in Economics and Finance is the Bank’s newsletter-style publication, centering on timely economic, financial, and regional topics.

Staff Reports are technical papers based on preliminary research findings and are designed to stimulate discussion and elicit comments. Staff Reports are intended to meet high publication standards, as their ultimate goal is publication in high-quality academic and business journals.

Research Papers are technical papers, also based on preliminary research findings and designed to stimulate discussion and elicit comments. However, Research Papers do not undergo the comprehensive review processes to which Staff Reports are subject.

Indexes of recent issues from each series are featured in this brochure. We invite you to order copies from any series, as well as to add your name to their mailing lists. A detachable order form is included for your convenience, which also contains information on obtaining and ordering copies directly via the Internet.

In addition, members of the Research and Market Analysis Group publish in outside journals and other publications. Also featured in this brochure is a list of these recent papers. Interested readers are encouraged to contact the authors (212-720-5000) to obtain copies.
This special issue of the Economic Policy Review is dedicated to the proceedings of a colloquium—held by the Federal Reserve Bank of New York on November 4, 1994—on U.S. wage trends during the 1980s and early 1990s. It contains eight papers presented by academic participants, a background paper by Bank economists, and summaries of the day’s discussions.

Opening Remarks
William J. McDonough

The Internationalization of the U.S. Labor Market and the Wage Structure
George J. Borjas

What Are the Causes of Rising Wage Inequality in the United States?
John Bound and George Johnson

U.S. Wage Trends in the 1980s: The Role of International Factors
Robert Z. Lawrence

Inequality in Labor Market Outcomes: Contrasting the 1980s and Earlier Decades
Chinhui Juhn and Kevin M. Murphy

Summary of Discussion
Thomas Klitgaard and Adam Posen

The Future Path and Consequences of the U.S. Earnings Gap
Frank Levy

Trade and Wages: Choosing among Alternative Explanations
Jagdish Bhagwati

Macroeconomic Implications of Shifts in the Relative Demand for Skills
Olivier Blanchard

The Growing Wage Gap: Is Training the Answer?
Lisa M. Lynch

Summary of Discussion
S. Brock Blomberg and Gabriel S.P. de Kock

Explaining the Growing Inequality in Wages across Skill Levels
David A. Brauer and Susan Hickok
A Prolegomenon to Future Capital Requirements
Arturo Estrella
Bank supervisors have made significant strides since 1980 in the area of capital requirements, and they are currently pursuing further refinements. The author looks beyond such developments at longer term supervisory goals.

Historical Patterns and Recent Changes in the Relationship between Bank Holding Company Size and Risk
Rebecca S. Demsetz and Philip E. Strahan
What is the relationship between a bank holding company's size and the risk it takes? The authors find that although the level of risk at large and small bank holding companies has not differed significantly, important distinctions exist in the nature of that risk.

The Decline of Traditional Banking: Implications for Financial Stability and Regulatory Policy
Franklin R. Edwards and Frederic S. Mishkin
The authors examine the economic forces responsible for banks' reduced role in financial intermediation. They consider whether banks may be jeopardizing the financial system's stability by extending riskier loans or engaging in derivatives dealing and other "nontraditional" financial activities that bring higher returns but could carry greater risk.

Remarks on Economic, Supervisory, and Regulatory Issues Facing Foreign Banks Operating in the United States
William J. McDonough

Correlation Products and Risk Management Issues
James M. Mahoney
The author outlines the pricing and hedging of one type of correlation product, the differential swap, to show how nonseparable risk may escape traditional methods of assessing the risk of institutions' portfolios.

The Commodity-Consumer Price Connection: Fact or Fable?
S. Brock Blomberg and Ethan S. Harris
In examining the empirical relationship between commodity prices and consumer price inflation, the authors find that commodities' reputation as useful leading indicators of inflation is actually based more on fable than fact.
The Electronic Purse
John Wenninger and David Laster (April)
The electronic purse, a new payments instrument offering advantages to both consumers and merchants, may soon replace currency in many routine transactions. Widespread use of the electronic purse could, however, raise concerns about consumer protection and the safety and soundness of the instrument.

The Impact of Interstate Banking and Branching Reform: Evidence from the States
Susan M. Laughtlin (May)
Federal interstate banking and branching reform is about to become a reality, with the first phase of new legislation going into effect later this year. Past experience at the state level suggests that reform will accelerate the pace of industry consolidation but may not lead immediately to nationwide banking.

Sovereign Credit Ratings
Richard Cantor and Frank Packer (June)
Sovereign ratings are gaining importance as more governments with greater default risk borrow in international bond markets. But while the ratings have proved useful to governments seeking market access, the difficulty of assessing sovereign risk has led to agency disagreements and public controversy over specific rating assignments. Recognizing this difficulty, the financial markets have shown some skepticism toward sovereign ratings when pricing issues.

Currency Option Markets and Exchange Rates: A Case Study of the U.S. Dollar in March 1995
Allan M. Malz (July)
Some market observers attribute the dollar’s recent drop against the mark and yen to a type of currency option known as the knockout option. Although knockouts did contribute modestly to the dollar’s fall, their impact was felt to a much greater extent in the option markets.

The Health Sector’s Role in New York’s Regional Economy
Ronnie Lowenstein (August)
Economic activity in the New York region depends heavily on the health sector—a sector that helped buoy New York’s economy during the region’s 1989-92 downturn. But with fundamental changes occurring in health care, will the sector still bolster the region’s economy in the years to come?
The Impact of Individual Retirement Accounts on Savings
Jonathan McCarthy and Han N. Pham (September)
Bills to expand individual retirement accounts have been introduced in both houses of Congress this year. While proponents argue that these accounts can help reverse the nation’s declining saving rate, recent economic research suggests that the effect of the accounts on savings is in fact quite small.

Tourism and New York City’s Economy
Jason Bram (October)
In New York City, tourism has made impressive gains in recent years, particularly in the foreign visitor segment. While not large enough to propel the city’s economy, this long-term growth industry is critical to maintaining the local export base and providing jobs to low-skilled workers.

The Employment Report and the Dollar
Ethan S. Harris and Natasha M. Zabka (November)
Perhaps no piece of news garners more attention in exchange markets than the U.S. employment report. Yet there has been only limited research on the market’s response to the monthly release. The authors quantify the impact of the report and explain why exchange market sensitivity to the employment announcements has increased over time.

Chain-weighting: The New Approach to Measuring GDP
Charles Steindel (December)
Recent dramatic changes in the U.S. economy’s structure have compelled the Bureau of Economic Analysis to revise the way in which it measures real GDP levels and growth. By switching to a chain-weighted method of computing aggregate growth—which relies heavily on current price information—BEA will be able to measure GDP growth more accurately by eliminating upward biases in the incoming data.
Central Bank Independence and Disinflationary Credibility: A Missing Link?
Adam Posen (May)
Granting central banks independence from short-term political control is widely assumed to decrease inflation by increasing the credibility of commitments to price stability. The author finds no evidence that the costs of disinflation are lower in countries with independent central banks or that central bank independence inhibits government collection of seignorage revenues or manipulation of economic policy for electoral gain.

The Costs and Benefits of Dual Trading
Hun Y. Park, Asani Sarkar, and Lifan Wu (June)
The authors find that marketmaking practices of dual traders are pit-specific. They compare the prices that dual traders obtain on their own trades, versus those of their customers, in the S&P 500 futures pit and the Japanese yen futures pit. Differences in dual traders’ behavior in the two contracts appear to be related to whether the traders can profit from private information on their customers’ order flow.

Short-Term Speculators and the Origins of Near-Random-Walk Exchange Rate Behavior
C.L. Osler (July)
Normal speculative activity could be a source of random-walk exchange rate behavior. Using a noise trader model to analyze very short-term exchange rate behavior, the author shows that rational, risk-averse speculators will smooth the impact of shocks to exchange rate fundamentals. With sufficient speculative activity, an exchange rate could become statistically indistinguishable from a random walk, regardless of the generating processes of its fundamental determinants.

Head and Shoulders: Not Just a Flaky Pattern
C.L. Osler and P.H. Kevin Chang (August)
The authors rigorously evaluate the predictive power of the head-and-shoulders pattern as applied to daily exchange rates. Though such visual, nonlinear chart patterns are applied frequently by technical analysts, this paper is one of the first to evaluate the predictive power of such patterns.

Using Option Prices to Estimate Realignment Probabilities in the European Monetary System
Allan M. Malz (September)
The author describes a procedure for estimating the market’s perceived probability distribution of future exchange rates from the prices of risk reversals and other currency options. This procedure is used to estimate the ex ante probability of a realignment of the French franc and pound sterling during the 1992-93 ERM crisis.
An Efficient, Three-step Algorithm for Estimating Error-correction Models with an Application to the U.S. Macroeconomy
Michael D. Boldin (October)
The author describes a three-step algorithm for estimating a system of error-correction equations that can be easily programmed using least-squares procedures.

The Relationship between Government Financial Condition and Expected Tax Rates Reflected in Municipal Bond Yields
Sangkyun Park (November)
The author derives expected changes in tax rates from yields on short- and long-term municipal bonds and examines the relationship between expected changes in tax rates and the financial condition of the federal government between 1965 and 1994.

Preserving Firm Value through Exit: The Case of Voluntary Liquidations
Michael J. Fleming and John J. Moon (December)
Voluntary liquidations offer an interesting example of efficient and orderly asset reallocation. In this study, the authors examine why firms liquidate and what happens to their assets.
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Taylor, Black and Scholes: Series Approximations and Risk Management Pitfalls
Arturo Estrella (No. 9501)

The Evolution and Determinants of Corporate Profits: An International Comparison
Merih Uctum (No. 9502)

New Evidence on the Effectiveness of the Proxy Mechanism
Michael J. Fleming (No. 9503)

Expected Repo Specialness Costs and the Treasury Auction Cycle
Frank Keane (No. 9504)

Perspectives on U.S. External Deficits
M.A. Akhtar (No. 9505)

Diversification, Size, and Risk at Bank Holding Companies
Rebecca S. Demsetz and Philip E. Strahan (No. 9506)

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Angela E. Chang (No. 9507)

Federal Grants During the Eighties
Ronnie Lowenstein (No. 9508)

Industry Restructuring Measures and Productivity: Evidence from the 1980's
S. Brock Blomberg and Charles Steindel (No. 9509)

Industrial Capacity and Industrial Investment
Charles Steindel (No. 9510)

The Transition to E.M.U.: Structural and Strategic Aspects
Michel Aglietta (No. 9511)

James M. Mahoney, Chamu Sundaramurthy, and Joseph T. Mahoney (No. 9512)

The Finance-Growth Nexus: Evidence from Bank Branch Deregulation
Jith Jayaratne and Philip E. Strahan (No. 9513)

The Literature on Privatization
Stephen Yeaple and Warren Moskowitz (No. 9514)

Intervention Strategies and Exchange Rate Volatility: A Noise Trading Perspective
Juann H. Hung (No. 9515)
Board Structure, Antitakeover Provisions, and Stockholder Wealth
Chamu Sundaramurthy, James M. Mahoney, and Joseph T. Mahoney (No. 9516)

Defined Contribution Plans: The Role of Income, Age, and Match Rates
William Bassett (No. 9517)

Modelling U.S. Services Trade Flows: A Cointegration-ECM Approach
Juann H. Hung and Sandra Viana (No. 9518)

Fiscal Consolidation in Europe
Michel Aglietta and Merih Uctum (No. 9519)

Stock Market Valuation Indicators: Is This Time Different?
Jean Helwege, David Laster, and Kevin Cole (No. 9520)

Using Regional Variation to Explain Widening Earnings Differentials by Educational Attainment
David A. Brauer (No. 9521)

Modeling Volatility Dynamics
Francis X. Diebold and Jose A. Lopez (No. 9522)

The Short End of the Forward Curve and Asymmetric Cat's Tail Convergence
Eli M. Remolona, Joseph Dziwura, and Irene Pedraza (No. 9523)

Evaluating the Predictive Accuracy of Volatility Models
Jose A. Lopez (No. 9524)

Forecast Evaluation and Combination
Francis X. Diebold and Jose A. Lopez (No. 9525)

The Term Structure of Interest Rates and Its Role in Monetary Policy for the European Central Bank
Arturo Estrella and Frederic S. Mishkin (No. 9526)

Multiple Ratings and Credit Standards: Differences of Opinion in the Credit Rating Industry
Richard Cantor and Frank Packer (No. 9527)

Regime-Switching Monetary Policy and Real Business Cycle Fluctuations
Fangxiong Gong (No. 9528)

New York Merchandise Exports
Howard Howe and Mark Leary (No. 9529)
Angelos Antzoulatos


Leonardo Bartolini


Richard Cantor and Frank Packer

Angela Chang

Linda Goldberg


Eric Green
Erica Groshen


Jean Helwege

Jean Helwege, David Laster, and Kevin Cole

Darryll Hendricks

Jith Jayaratne

Frank Keane

Jose A. Lopez

Cara S. Lown
“Bank Credit and Economic Activity: Evidence from the Texas Banking Decline,”

Cara S. Lown and Stavros Peristiani
“The Behavior of Consumer Loan Rates During the 1990 Credit Slowdown.”

Theodore Lubke

James M. Mahoney

Jonathan McCarthy
“Imperfect Insurance and Differing Propensities to Consume Across Households.”
Journal of Monetary Economics. Forthcoming.

Frederic S. Mishkin


“Symposium on the Monetary Transmission Mechanism.” Journal of Economic Perspectives 9, no. 4 (Fall).

“Comment on Systemic Risk.” Research in Financial Services Private and Public Policy 7.

Outside Journals and Other Publications: 1995 and Forthcoming (cont.)

Frederic S. Mishkin (cont.)


Carol Osler
“Exchange Rate Dynamics and Speculator Horizons.” Journal of International Money and Finance 14, no. 5.

Frank Packer

Sangkyun Park

Adam Posen

Robert Rich
“Inflation and the Asymmetric Effects of Money on Output Fluctuations,” with Wooheon Rhee. Journal of Macroeconomics 17, no. 4 (Fall).

Anthony Rodrigues


Asani Sarkar

Rama Seth


Outside Journals and Other Publications: 1995 and Forthcoming (cont.)

Rama Seth (cont.)


Philip E. Strahan