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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. For copies, please fax your requests to us directly at (212) 720-8254.
Price Risk Intermediation in the Over-the-Counter Derivatives Markets: Interpretation of a Global Survey
John Kambhu, Frank Keane, and Catherine Benadon
In April 1995, central banks in twenty-six countries conducted a global survey of the financial derivatives markets' size and structure. The authors' analysis of the survey results suggests that at the time of the survey, dealers in the aggregate assumed only small exposures to price risks in meeting end-user demands. In addition, despite the derivatives markets' large size, potential price shocks there would still be appreciably smaller in scale than price shocks in the cash markets. Thus, the derivatives markets' overall effect may be to modify and redistribute exposures to price risks in the financial system, rather than to leverage those exposures.

Risk Management by Structured Derivative Product Companies
Eli M. Remolona, William Bassett, and In Sun Geoum
In the early 1990s, some U.S. securities firms and foreign banks began creating subsidiary vehicles—known as structured derivative product companies (DPCs)—whose special risk management approaches enabled them to obtain triple-A credit ratings with the least amount of capital. At first, market observers expected credit-sensitive customers to turn increasingly to these DPCs. However, the authors find that structured DPCs—despite their superior ratings—have failed to live up to their initial promise and have yet to gain a competitive edge as intermediaries in the derivatives markets.

Evaluation of Value-at-Risk Models Using Historical Data
Darryll Hendricks
Recent studies have underscored the need for market participants to develop reliable methods of measuring risk. One increasingly popular technique is the use of “value-at-risk” models, which convey market risk estimates for an entire portfolio in one number. The author explores how well these models actually perform by applying twelve value-at-risk approaches to 1,000 randomly chosen foreign exchange portfolios. Using nine criteria to evaluate model performance, he finds that the approaches generally capture the risk they set out to assess and tend to produce risk estimates that are similar in average size. No approach, however, appears to be superior by every measure.
Banks with Something to Lose: The Disciplinary Role of Franchise Value
Rebecca S. Demsetz, Marc R. Saidenberg, and Philip E. Strahan
As protectors of the safety and soundness of the banking system, banking supervisors are responsible for keeping banks’ risk taking in check. The authors explain that franchise value—the present value of the stream of profits that a firm is expected to earn as a going concern—makes the supervisor’s job easier by reducing banks’ incentives to take risks. The authors explore the relationship between franchise value and risk taking from 1986 to 1994 using both balance-sheet data and stock returns. They find that banks with high franchise value operate more safely than those with low franchise value. In particular, high-franchise-value banks hold more capital and take on less portfolio risk, primarily by diversifying their lending activities.

What Do Chain Store Sales Tell Us about Consumer Spending?
Ethan S. Harris and Clara Vega
Released at both weekly and monthly intervals, chain store indexes provide a timely measure of the sales performance of large retail companies. This article investigates whether the indexes can also play a role in tracking and forecasting consumer spending as a whole. The authors begin by exploring the extent to which developments in chain store sales are representative of retail sales trends overall. They then conduct formal statistical tests of the relationship between chain store data and official measures of total retail sales and personal consumption expenditure. They find that monthly chain store indexes, if given the appropriate weights in forecast models, significantly improve the accuracy of predictions for several measures of consumer spending.

Determinants and Impacts of Sovereign Ratings
Richard Cantor and Frank Packer
The authors conduct the first systematic analysis of the determinants and impact of the sovereign credit ratings assigned by the two leading U.S. agencies, Moody’s Investors Service and Standard and Poor’s. Of the large number of criteria used by the two agencies, six factors appear to play an important role in determining a country’s credit rating: per capita income, GDP growth, inflation, external debt, level of economic development, and default history. In addition, the authors find that sovereign ratings influence market yields—particularly those on non-investment-grade issues—individually and independently of any correlation with publicly available information.
Coping with the Rising Yen: Japan’s Recent Export Experience
Thomas Klitgaard (January)
Despite an appreciating yen, Japanese firms have managed to maintain strong export sales growth during the first half of the 1990s. Their strategies? Cutting the yen price of exports and shifting production to higher-value merchandise.

Dynamics of the Second District Economy
Jason Bram (February)
Consumers and analysts remain wary about the economic prospects of the Second District. But is caution here simply becoming habit? True, there are some weak spots, but strong performance in the southern tier is pointing to a brighter economic future for the district.

Small Business Lending and Bank Consolidation: Is There Cause for Concern?
Philip E. Strahan and James Weston (March)
Small banks are a major source of credit for small businesses. As banking consolidation continues, will a resulting decline in the presence of small banks adversely affect the availability of that credit?

Core CPI: Excluding Food, Energy . . . and Used Cars?
Richard W. Peach and Karen Alvarez (April)
Although used cars represent only a small portion of the consumer price index, their extreme volatility has had a major impact on the measured inflation rate. To explain this relationship, the authors describe how used cars are treated in the CPI and explore what might cause the wide swings in used car prices.

1996 Job Outlook: The New York–New Jersey Region
James Orr and Rae D. Rosen (April)
The New York–New Jersey region’s hard-earned recovery in employment is being overshadowed by ongoing job losses in certain sectors and the prospect of moderating growth in the United States as a whole. Fortunately, several positive trends are bolstering the region’s employment picture. Strength in the services sector, a falloff in restructuring, and gains in income point to continuing—though modest—regional job growth in 1996.

Understanding Aggregate Default Rates of High Yield Bonds
Jean Hédouze and Paul Kleiman (May)
What explains the wide swings in the default rate of high yield bonds in recent years? Differences in credit quality from year to year account for much of the observed variation in default rates, but economic conditions and the “age” of bonds have also played a role.
The Yield Curve as a Predictor of U.S. Recessions
Arturo Estrella and Frederic S. Mishkin (June)
The authors find that the yield curve—specifically, the spread between interest rates on the ten-year Treasury note and the three-month Treasury bill—significantly outperforms other financial and macroeconomic indicators in predicting recessions two to six quarters ahead.

Consolidation and Competition in Second District Banking Markets
Jith Jayaratne and Christine Hall (July)
The consolidation rate in the Federal Reserve's Second District banking markets generally outpaced the national average between 1989 and 1994. Nevertheless, these banking markets remain relatively unconcentrated, with midsized banks increasing their market share at the expense of large banks in three of the five markets examined.

Securitizing Property Catastrophe Risk
Sara Borden and Asani Sarkar (August)
The trading of property catastrophe risk using standard financial instruments such as options and bonds enables insurance companies to hedge their exposure by transferring risk to investors, who take positions on the occurrence and cost of catastrophes. Although these property catastrophe risk instruments are relatively new products, they have already established an important link between the insurance industry and the U.S. capital market.

Repo Rate Patterns for New Treasury Notes
Frank Keane (September)
Despite the enormous popularity of the market for repurchase agreements, the behavior of interest rates on “repo” transactions is not well understood. An analysis of new data for 1992-95 reveals that repo rates on recently issued Treasury notes rise and fall in a regular pattern as the Treasury auction cycle progresses.

Has the Stock Market Grown More Volatile?
David Laster and Kevin Cole (October)
The record number of fifty-point daily moves in the Dow Jones Industrial Average in 1996—forty-five in the first three quarters alone—has attracted considerable media attention. An analysis traces this phenomenon to two basic causes: the record level of the Dow and the return of stock price volatility to post-World War II norms following several years of low volatility.
New York State’s Merchandise Export Gap
Howard Howe and Mark Leary (November)
New York’s merchandise export performance has trailed the nation’s for several years. The cause of this gap is not easy to identify: the state maintains a relatively healthy mix of customer markets, remains well represented in industries with strong foreign demand, and continues to enjoy declining labor costs. A broader look at New York’s competitiveness, however, reveals that high nonlabor costs may be hurting the state’s manufacturing sector and thus its volume of exports.

Bank Branches in Supermarkets
Lawrence J. Radecki, John Wenninger, and Daniel K. Orlow (December)
The largest U.S. commercial banks are restructuring their retail operations to reduce the cost disadvantage resulting from a stagnant deposit base and stiffer competition. As part of this effort, some banks are opening “supermarket,” or “in-store,” branches: a new type of banking office within a large retail outlet. An alternative to the traditional bank office, the supermarket branch enables banks to improve the efficiency of the branch network and offer greater convenience to customers.
The Effects of Inflation on Wage Adjustments in Firm-Level Data: Grease or Sand?
Erica L. Groshen and Mark E. Schweitzer (January)
The authors study the effects of inflation on wage changes made by firms in a unique thirty-seven-year panel of occupations and employers drawn from the Federal Reserve Bank of Cleveland Community Salary Survey. The authors' analysis identifies two relative prices embedded in wage changes and then draws inferences about the costs and benefits of inflation from the adjustments in these relative prices.

Error Correction Mechanisms and Short-run Expectations
Angelos A. Antzoulatos (February)
Reflecting the nature of economic decisions, the error correction mechanism (ECM) in the error correction representation of a system of co-integrated variables may arise from forward-looking behavior. In such a case, the estimated ECM coefficients may misleadingly appear to be insignificant or to have the opposite-than-expected sign if the variables in the error correction representation do not adequately capture short-run expectations. The author explores the nature of this problem with a theoretical model for consumption and demonstrates how severe the problem can be with U.S. data.

Capital Account Liberalization as a Signal
Leonardo Bartolini and Allan Drazen (March)
The authors present a model in which a government's current capital-controls policy signals future policies. Controls on capital outflows evolve in response to news on technology, contingent on government attitudes toward taxation of capital. When there is uncertainty over government types, a policy of liberal capital outflows sends a positive signal that may trigger a capital inflow. This prediction is consistent with the experience of several countries that have recently liberalized their capital account.

Multiple Ratings and Credit Standards: Differences of Opinion in the Credit Rating Industry
Richard Cantor and Frank Packer (April)
Rating-dependent financial regulators assume that the same letter ratings from different agencies imply the same levels of default risk. Most “third” agencies, however, assign significantly higher ratings on average than Moody’s and Standard and Poor’s. The authors show that, contrary to the claims of some rating industry professionals, sample selection bias can account for at most half of the observed average difference in ratings. They also investigate the economic rationale for using multiple rating agencies.
Rational Speculators and Exchange Rate Volatility
C.L. Osler and John A. Carlson (May)
The authors examine whether the presence of rational, fully informed speculators may increase exchange rate volatility under floating exchange rates, depending on the extent of speculative activity and the types of economic shocks that dominate.

Investment, Pass-Through, and Exchange Rates: A Cross-Country Comparison
Jose Campa and Linda S. Goldberg (June)
Although large changes in real exchange rates have occurred during the past decades, the real implications of these movements remain an empirical question. Using detailed data from the United States, Canada, the United Kingdom, and Japan, the authors theoretically and empirically look at the implications of exchange rates for time series of sectoral investment. Important differences exist in investment endogeneity across high and low markup sectors, with investment in low markup sectors significantly more responsive to exchange rates.

Technology, Factor Supplies, and International Specialization: Estimating the Neoclassical Model
James Harrigan (October)
The standard neoclassical model of trade theory predicts that international specialization will be jointly determined by cross-country differences in relative factor endowments and relative technology levels. The author uses economic theory to specify an empirical model of specialization consistent with the neoclassical explanation. According to the empirical model, a sector's share of GDP depends on both relative factor supplies and relative technology differences, and the estimated parameters of the model have a close and clear connection to theoretical parameters. The model is estimated for manufacturing sectors using a twenty-year, ten-country panel of data on the industrialized countries. Relative technology levels and factor supplies are both found to be an important determinant of specialization.

Housing Demand and Community Choice: An Empirical Analysis
Carol Rapaport (November)
Housing demand reflects the household's simultaneous choice of neighborhood, whether to own or rent the dwelling, and the quantity of housing services demanded. Existing literature emphasizes the final two factors, but overlooks the choice of community. The author develops an econometric model that incorporates all three components, and then estimates this model using a sample of Tampa, Florida, households. Incorporating community choice increases the price elasticity of demand and reduces the differential between white and comparable nonwhite households. The results are robust to the inclusion of permanent income and taxes.
When Liberal Policies Reflect External Shocks, What Do We Learn?
Leonardo Bartolini and Allan Drazen (December)

The authors present a model where policies of free capital mobility can signal governments’ future policies, but the informativeness of the signal depends on the path of world interest rates. Capital flows to “emerging markets” reflect investors’ perception of these markets’ political risk. With low world interest rates, emerging markets experience a capital inflow and engage in a widespread policy of free capital mobility; with higher rates, only sufficiently committed countries allow free capital mobility, whereas others impose controls to trap capital onshore, thus signaling future policies affecting capital mobility. These predictions are consistent with the recent experience of capital flows and policies affecting capital mobility in developing countries.

Is There Endogenous Long-Run Growth? Evidence from the U.S. and the U.K.
Kel-Mu Yi and Narayana R. Kocherlakota (December)

The key feature of endogenous growth models is that they imply that permanent changes in government policy can have permanent effects on growth rates. The authors develop and implement an empirical framework to test this implication. In the authors’ estimation, they use time series data spanning 100 years for the United States and 160 years for the United Kingdom. Their findings show that it is possible to have endogenous growth even when U.S. and U.K. GDP growth rates appear to be stable over time. The authors conclude that at the aggregate level the production function appears to exhibit constant returns to scale in reproducible inputs.
Are Exchange Rates Excessively Volatile? And What Does “Excessively Volatile” Mean, Anyway?
Leonardo Bartolini and Gordon M. Bodnar (No. 9601)

Exchange Rate Cointegration across Central Bank Regime Shifts
Jose A. Lopez (No. 9602)

Consumer Payments over Open Computer Networks
John Wenninger and Daniel Orlow (No. 9603)

American Employer Salary Surveys and Labor Economics Research: Issues and Contributions
Erica L. Groshen (No. 9604)

European Integration and Asymmetry in the EMS
Merih Uctum (No. 9605)

Has the Cost of Fighting Inflation Fallen?
Gabriel S.P. de Kock and Tanya E. Ghaleb (No. 9606)

Capacity Utilization-Inflation Linkages: A Cross-Country Analysis
Gabriel S.P. de Kock and Tania Nadal-Vicens (No. 9607)

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Did the Good Guys Lose? Heterogeneous Traders and Regulatory Restrictions on Dual Trading
Peter R. Locke, Asani Sarkar, and Lifan Wu (No. 9611)

Volatility and Liquidity in Futures Markets
Peter R. Locke and Asani Sarkar (No. 9612)

Two Factors along the Yield Curve
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What Do Chain Store Sales Tell Us about Consumer Spending?
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Europe and the Maastricht Challenge
Michel Aglietta and Merih Uctum (No. 9616)

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David Laster, Paul Bennett, and In Sun Geoum (No. 9617)

The Effects of Corporate Antitakeover Provisions on Long-Term Investment: Empirical Evidence
James M. Mahoney, Chamu Sundaramurthy, and Joseph T. Mahoney (No. 9618)

A Three-Factor Econometric Model of the U.S. Term Structure
Frank F. Gong and Eli M. Remolona (No. 9619)

Do Banks Follow Their Customers Abroad?
Daniel E. Nolle and Rama Seth (No. 9620)

The Relative Importance of National and Regional Factors in the New York Metropolitan Economy
Jonathan McCarthy and Charles Steindel (No. 9621)

Effects of Household Creditworthiness on Mortgage Refinancings
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Do Mergers Improve the X-Efficiency and Scale Efficiency of U.S. Banks? Evidence from the 1980s
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The Channel of Monetary Transmission to Demand: Evidence from the Market for Automobile Credit
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The Effects of Daily Price Limits on Cotton Futures and Options Trading
Joan Evans and James M. Mahoney (No. 9627)

Foreign Banks, Profits, and Commercial Credit Extension in the United States
Philip Molyneux and Rama Seth (No. 9628)

Can a Fiscal Contraction Strengthen a Currency? Some Doubts about Conventional Mundell-Fleming Results
Richard Cantor and Robert Driskill (No. 9629)

Entry Restrictions, Industry Evolution, and Dynamic Efficiency: Evidence from Commercial Banking
Jith Jayaratne and Philip E. Strahan (No. 9630)

Interest Rate Expectations and the Shape of the Yield Curve
Joseph R. Dziwura and Eric M. Green (No. 9631)

Franchise Value, Ownership Structure, and Risk at Savings Institutions
Elijah Brewer III and Marc R. Saidenberg (No. 9632)

Price Formation and Liquidity in the U.S. Treasuries Market: Evidence from Intraday Patterns around Announcements
Michael J. Fleming and Eli M. Remolona (No. 9633)

Ongoing Restructuring of Retail Banking
Daniel K. Orlow, Lawrence J. Radecki, and John Wenninger (No. 9634)

Foreign Investment Fluctuations and Emerging Market Stock Returns: The Case of Mexico
John Clark and Elizabeth Berko (No. 9635)

Consumer Sentiment and Household Expenditure: Reevaluating the Forecasting Equations
Sydney Ludvigson (No. 9636)

Inflation Risk in the U.S. Yield Curve: The Usefulness of Indexed Bonds
Frank F. Gong and Eli M. Remolona (No. 9637)
Papers listed below are available only by faxing your requests to the Research and Market Analysis Group, at (212) 720-8254.

**Angelos Antzoulatos**


“Consumer Credit and Consumption Forecasts.” International Journal of Forecasting 12, no. 4 (December).


**Leonardo Bartolini**


**Richard Cantor**

Outside Journals and Other Publications: 1996 and Forthcoming (Continued)

Richard Cantor and Frank Packer
“Sovereign Risk Assessment and Agency Credit Ratings.” European Financial Management 2, no. 2 (July).


Angela Chang
“Tax Policy, Lump-Sum Pension Distributions, and Household Saving.” National Tax Journal 49, no. 2 (June).

Rebecca S. Demsetz and Philip E. Strahan

Arturo Estrella
“Comment on ‘The Behavior of Interest Rates Implied by the Term Structure of Eurodollar Futures.’” Journal of Money, Credit, and Banking 28, no. 3 (August).

Linda Goldberg


Outside Journals and Other Publications: 1996 and Forthcoming (Continued)

James Harrigan
“Openness to Trade in Manufactures in the OECD.” The Journal of International Economics 40, nos. 1-2 (February).

Jean Helwege


Jean Helwege and David Laster

Matthew Higgins

Jith Jayaratne
“A Note on the Implementation of Cable TV Rate Caps.” Review of Industrial Organization, December.

Jith Jayaratne and Philip Strahan

Frank Keane
David Laster

Jose Lopez

Cara S. Lown and Stavros Peristiani

Sydney Ludvigson

Jim Mahoney


Frederic S. Mishkin


Frederic S. Mishkin (Continued)


Don Morgan
Outside Journals and Other Publications: 1996 and Forthcoming (Continued)

Don Morgan (Continued)

Carol Osler


Sangkyun Park
“Banking and Deposit Insurance as a Risk-Transfer Mechanism.” Journal of Financial Intermediation 5, no. 3 (September).


Gabriel Perez Quiros

Stavros Peristiani


Carol Rapaport

Robert Rich
Anthony Rodrigues

Rae Rosen


Philip E. Strahan

Joseph Tracy

Eric van Wincoop


Gavin Wellington
“Hedging MBS Call Risk with a Puttable Callable Bond.” Derivatives Week, April 22.

Kei-Mu Yi
Outside Journals and Other Publications: 1996 and Forthcoming (Continued)

Kei-Mu Yi (Continued)


Egon Zakrajšek