Research UPDATE

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Research and Statistics Group www.newyorkfed.org/research

Research Group's Blog Takes Flight

The Research and Statistics Group's blog recently marked its first six months of operation. In just a short span, *Liberty Street Economics* is emerging as an authoritative voice on the web as it enables the Group to engage with the public on economic issues quickly and frequently.

> *Liberty Street Economics* has had a promising six months. Going forward, the blog team plans to build on that performance by fine-tuning the blog and finding other innovative ways to use it to reach out to the public.

Through *Liberty Street Economics*, New York Fed research economists and other Bank staff can disseminate their analysis to a wide audience. It has become a vehicle for getting new research out swiftly, served as a platform for posts on a range of current topics, and opened a meaningful dialogue with readers.

The blog's success is reflected in some encouraging statistics. From the launch of *Liberty Street Economics* in March through the third quarter, there have been:

- 60-plus posts (*see the top ones, on page 2*),
- roughly 180,000 page views,
- visitors from some 25 countries,
- more than 150 cites in other blogs,
- over 3,500 "Likes," "Tweets," and "Shares" by blog readers.

Like other web startups, the blog faced the early challenge of driving traffic to the site. Yet unlike commercial startups, it did not advertise in the usual way. Instead, the blog team—made up of economist-editors and other Research and Bank staff—turned to other methods to get the word out. The team relied on the New York Fed's public website and other outlets to announce the new venture, and *Liberty Street Economics* is now featured on the Bank's homepage. In addition, cites in prominent business blogs and on news websites have increased its traffic. Social-media platforms like Facebook and Twitter—all new posts are tweeted—have also heightened visibility.

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Top Blog Posts through Q3

Liberty Street Economics posts on economic topics twice a week—more frequently when there is a post on a newly released report or on a hot topic.

Top Economic Posts

- "Commodity Prices and the Mistake of 1937: Would Modern Economists Make the Same Mistake?" Gauti Eggertsson, *June 1*
- "Have Consumers Been Deleveraging?" Meta Brown, Andrew Haughwout, Donghoon Lee, and Wilbert van der Klaauw, *March 21*
- "How Easy Is It to Forecast Commodity Prices?" Jan J. J. Groen an d Paolo A. Pesenti, *June 27*
- "The Vanishing U.S.-E.U. Employment Gap," Christian Grisse, Thomas Klitgaard, and Ayşegül Şahin, *July 25*
- "A Closer Look at the Recent Pickup in Inflation," John Sporn and Andrea Tambalotti, *June 6*

Visit libertystreeteconomics.newyorkfed.org; follow us on Twitter at @LibertyStEcon.

Each Friday, our Research Library offers a "Historical Echoes" post of general interest.

Top Post

- "Communication before the Blog…" *May 20*

Publications and Other Media

- The *Economic Policy Review*—a policy-oriented journal focusing on economic and financial market issues.
- *EPR Executive Summaries*—online versions of selected *Economic Policy Review* articles, in abridged form.
- *Current Issues in Economics and Finance*—concise studies of topical economic and financial issues.
- *Second District Highlights*—a regional supplement to *Current Issues*.
- *Staff Reports*—technical papers intended for publication in leading economic and finance journals, available only online.
- *Publications and Other Research*—an annual catalogue of our research output.
- *Liberty Street Economics*—a blog that enables our researchers to engage with the public on important economic issues quickly and frequently.

National Saving Deficits Underlie Euro Area Debt Crises

In "Saving Imbalances and the Euro Area Sovereign Debt Crisis" (*Current Issues in Economics and Finance*, vol. 17, no. 5), authors Matthew Higgins and Thomas Klitgaard trace the debt crisis in the countries of the euro area periphery to saving imbalances—shortfalls in national saving that left these countries dependent upon foreign borrowing to finance domestic capital expenditures. The challenge for the periphery countries in the current environment, the authors argue, is to bring spending back into line with national income now that credit risk concerns have prompted foreign investors to halt further lending.

Higgins and Klitgaard show that in the years leading up to 2010, saving in the periphery countries dropped to low levels. In Greece, saving fell to just 8 percent of GDP in 2007; in Portugal, to 13 percent of GDP. The decline in the saving rate was not as marked in Spain but still significant.

These saving deficits meant that the periphery countries had to borrow heavily from foreign private investors to support both current consumption and domestic capital expenditures. The turn to foreign borrowing, the authors observe, was facilitated by the countries' admission to the European Economic and Monetary Union in the late 1990s. This development reassured foreign lenders that investments in periphery countries' debt instruments would not lose value because of inflation or currency depreciation, and enabled the periphery countries to obtain financing at significantly lower rates than they had been granted before.

According to Higgins and Klitgaard, the periphery countries' increased access to relatively low-cost foreign funds contributed to a sharp rise in spending. Irish real consumption spending rose 55 percent from 1999 to 2007; over the same period, consumption spending climbed 35 percent in Greece and Spain. While foreign borrowing also supported investment spending, that spending was largely channeled into housing and other nontradable sectors that do not yield income to support repayment.

In the latter part of their analysis, Higgins and Klitgaard consider how the periphery countries will repair their finances while adjusting to sharply reduced access to private foreign capital. One route would be to boost national saving by implementing fiscal austerity measures. As the authors note, Greece, Spain, Ireland, and Portugal have all taken steps to reduce fiscal deficits—albeit at the cost of weakened economic performance.

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A second route would be to replace borrowed funds from abroad with increased export revenues. While in the past, a weaker currency might have boosted export revenues in the periphery, membership in a monetary union now sharply limits this possibility. "Instead," Higgins and Klitgaard note, "price competitiveness gains must come via a mix of superior productivity gains or wage and price restraints." The authors report that the periphery countries show some signs of increased labor productivity; nevertheless, "given the challenges of boosting productivity and the stickiness of wages and prices, only gradual progress is likely." ■

Most Downloaded Publications

Listed below are the most sought-after Research Group articles and papers from the New York Fed's website and from the Bank's page on the Social Science Research Network site (www.ssrn.com/link/FRB-New-York.html).

New York Fed website, third-quarter 2011:

- "Shadow Banking," by Zoltan Pozsar, Tobias Adrian, Adam Ashcraft, and Hayley Boesky (*Staff Reports*, no. 458, July 2010) – 4,106 downloads
- "Sovereign Credit Ratings," by Richard Cantor and Frank Packer (*Current Issues in Economics and Finance*, vol. 1, no. 3, June 1995) – 3,873 downloads
- "Understanding the Securitization of Subprime Mortgage Credit," by Adam B. Ashcraft and Til Schuermann (*Staff Reports*, no. 318, March 2008) – 3,284 downloads

SSRN website, third-quarter 2011:

- "Corporate Governance and Banks: What Have We Learned from the Financial Crisis?" by Hamid Mehran, Alan Morrison, and Joel Shapiro (*Staff Reports*, no. 502, June 2011) – 326 downloads
- "Determinants and Impact of Sovereign Credit Ratings," by Richard Cantor and Frank Packer (*Economic Policy Review*, vol. 2, no. 2, October 1996) – 253 downloads
- "Understanding the Securitization of Subprime Mortgage Credit," by Adam B. Ashcraft and Til Schuermann (*Staff Reports*, no. 318, March 2008) – 192 downloads

For lists of the top-ten downloads, visit www.newyorkfed.org/research/top_downloaded/index.html.

Papers Presented

"Trade Dynamics in the Market for Federal Funds," Gara Afonso. Bank of Canada seminar, Ottawa, Ontario, Canada, July 21. With Ricardo Lagos.

"The Determinants of the CDS-Bond Basis during the Financial Crisis of 2007-2009," Jennie Bai. Thirty-Eighth Annual Meeting of the European Finance Association, Stockholm, Sweden, August 18. With Pierre Collin-Dufresne. Also presented at the Northern Finance Association Meetings, Vancouver, British Columbia, Canada, September 17.

"House Price Booms and Current Account Deficits," Andrea Ferrero. Society for Economic Dynamics Annual Meetings, Ghent, Belgium, July 7. Also presented at the Twenty-Sixth Annual Congress of the European Economic Association, Oslo, Norway, August 27.

"The International Role of the Dollar: Does It Matter If It Changes?" Linda Goldberg. Keynote address at the CESifo (Center for Economic Studies, Ifo Institute, and Munich Society for the Promotion of Economic Research) Venice Summer Institute Conference, Venice, Italy, July 22.

"Micro, Macro, and Strategic Forces in International Trade Invoicing," Linda Goldberg. NBER Summer Institute, International Finance and Macroeconomics Workshop, Cambridge, Massachusetts, July 12. With Cédric Tille.

"Real-Time Inflation Forecasting in a Changing World," Jan Groen. 2011 Joint Statistical Meetings in conjunction with the American Statistical Association, Miami Beach, Florida, July 31. With Richard Paap and Francesco Ravazzolo.

"Cash Dollars Abroad," Rebecca Hellerstein. NBER Summer Institute, International Finance and Macroeconomics Workshop. Cambridge, Massachusetts, July 14. With William Ryan.

"Macro Forecasts, Uncertainty, and Tail Risk Assessment: Evidence from the ECB Survey of Professional Forecasters," Robert Rich. Research Council of Norway seminar, Stavanger, Norway, August 26. With Joseph Song and Joseph Tracy.

"Optimal Disinflation under Learning," Argia Sbordone. Society for Computational Economics, Seventeeth International Conference on Computing in Economics and Finance, San Francisco, California, July 1. With Timothy Cogley and Christian Matthes. Also presented at the University of St. Andrews Centre for Dynamic Macroeconomic Analysis conference "Expectations in Dynamic Macroeconomic Models," St. Andrews, Scotland, September 1.

"Repo Runs," David Skeie. Thirty-Eighth Annual Meeting of the European Finance Association, Stockholm, Sweden, August 23. With Antoine Martin and Ernst-Ludwig von Thadden.

"Is There a Trade-off between Inflation and Output Stabilization?" Andrea Tambalotti. Twenty-Sixth Annual Congress of the European Economic Association, Oslo, Norway, August 28. With Alejandro Justiniano and Giorgio Primiceri.

"Anatomy of Welfare Reform Evaluation: Announcement and Implementation Effects," Wilbert van der Klaauw. Asian Meeting of the Econometric Society, Seoul, Korea, August 13. With Richard Blundell and Marco Francesconi. Also presented at a Columbia University Department of Economics seminar, New York City, September 7.

"The Financial Crisis at the Kitchen Table: Recent Trends in Household Debt and Credit," Wilbert van der Klaauw. Consumer Research Symposium on Financial Behavior in Turbulent Times, Federal Deposit Insurance Corporation, Washington, D.C., September 15. With Meta Brown, Andrew Haughwout, and Donghoon Lee.

"How Does Risk Management Influence Production? Evidence from a Field Experiment," James Vickery. Review of Finance Conference on Financial Intermediation and the Real Economy, cosponsored by the Centre for Economic Policy Research, the European Banking Center at Tilburg University, HEC Business School-Paris, the New York Stock Exchange, and Euronext, Paris, France, August 22. With Shawn Cole and Xavier Giné. Also presented at the Thirty-Eighth Annual Meeting of the European Finance Association, Stockholm, Sweden, August 19.

"Is Libor Accurate? Transaction-Level Evidence from Term Funding Markets," James Vickery. Twenty-Sixth Annual Congress of the European Economic Association, Oslo, Norway, August 27. With David Skeie and Dennis Kuo.

"Design of Contingent Capital with a Stock Price Trigger for Mandatory Conversion," Zhenyu Wang. Columbia University School of Engineering seminar, New York City, September 9. With Suresh Sundaresan. ■

Recently Published

Jaison Abel. 2011. "Human Capital and Economic Activity in Urban America," with Todd Gabe. *Regional Studies* 45, no. 8 (September): 1079-90.

Gara Afonso. 2011. "Liquidity and Congestion." *Journal of Financial Intermediation* 20, no. 3 (July): 324-60.

Gara Afonso and Anna Kovner. 2011. "Stressed, Not Frozen: The Federal Funds Market in the Financial Crisis," with Antoinette Schoar. *Journal of Finance* 66, no. 4 (August): 1109-39.

Stefano Eusepi and Andrea Tambalotti. 2011. "CONDI: A Cost-of-Nominal-Distortions Index," with Bart Hobijn. *American Economic Journal: Macroeconomics* 3, no. 3 (July): 53-91.

Antoine Martin and David Skeie. 2011. "Bank Liquidity, Interbank Markets, and Monetary Policy," with Xavier Freixas. *Review of Financial Studies* 24, no. 8 (August): 2656-92.

Simon Potter. 2011. "Time-Varying VARs with Inequality Restrictions," with Gary Koop. *Journal of Economic Dynamics and Control* 35, no. 7 (July): 1126-38.

João Santos. 2011. "Home-Country Bias: Does Domestic Experience Help Investors Enter Foreign Markets?" with Margarida Abreu and Victor Mendes. *Journal of Banking and Finance* 35, no. 9 (September): 2330-40.

Joseph Tracy and James Vickery. 2011. "A Private Lender Cooperative Model for Residential Mortgage Finance," with Toni Dechario, Patricia Mosser, and Joshua Wright. In Susan Wachter and Marvin Smith, eds., *The American Mortgage System: Crisis and Reform,* 286-304. Philadelphia, Pennsylvania: University of Pennsylvania Press.

Wilbert van der Klaauw. 2011. "Economics Course-work and Long-Term Behavior and Experiences of College Graduates in Labor Markets and Personal Finance," with Sam Allgood, William Bosshardt, and Michael Watts. *Economic Inquiry* 49, no. 3 (July): 771-94.

Zhenyu Wang. 2011. "Performance Maximization of Actively Managed Funds," with Paolo Guasoni and Gur Huberman. *Journal of Financial Economics* 101, no. 3 (September): 574-95.

Zhenyu Wang. 2011. "Valuing the Treasury's Capital Assistance Program," with Paul Glasserman. *Management Science* 57, no. 7 (July): 1195-211.

Tanju Yorulmazer. 2011. "Rollover Risk and Market Freezes," with Viral Acharya and Douglas Gale. *Journal of Finance* 66, no. 4 (August): 1177-209.

Basit Zafar. 2011. "An Experimental Investigation of Why Individuals Conform." *European Economic Review* 55, no. 6 (August): 774-98. ■

New Titles in the *Staff Reports* Series

Macroeconomics and Growth

No. 503, July 2011

The Production Impact of "Cash-for-Clunkers": Implications for Stabilization Policy

Adam Copeland and James Kahn

Stabilization policies frequently aim to boost spending as a means to increase GDP. Spending does not necessarily translate into production, however, especially when inventories are involved. Copeland and Kahn look at the "cash-for-clunkers" program that helped finance the purchase of nearly 700,000 vehicles in 2009. An analysis of auto sales and production movements reveals that the program did prompt a large spike in sales. But the program had only a modest and fleeting impact on production, as inventories buffered the movements in sales. These findings suggest caution in judging the efficacy of such policies by their impact on spending alone.

No. 505, July 2011

Sustainable Social Security: Four Options

Sagiri Kitao

This paper presents four policy options to make the Social Security program sustainable under the coming demographic shift: 1) increase payroll taxes by 6 percentage points, 2) reduce the replacement rates of the benefit formula by one-third, 3) raise the normal retirement age from sixty-six to seventy-three, or 4) means-test the benefits and reduce them one-to-one with income. While all four policies achieve the same goal, their economic outcomes differ significantly. Options 2 and 3 encourage own savings, and capital stock is more than 10 percent higher than in the other two options. The payroll tax increase in option 1 discourages work effort, but means-testing the benefits as outlined in option 4 yields the worst labor disincentives, especially among the elderly.

No. 510, August 2011

Evaluating Interest Rate Rules in an Estimated DSGE Model

Vasco Cúrdia, Andrea Ferrero, Ging Cee Ng, and Andrea Tambalotti

The empirical DSGE (dynamic stochastic general equilibrium) literature pays surprisingly little attention to the behavior of the monetary authority. Alternative policy rule specifications abound, but their relative merit is rarely discussed. The authors contribute to filling this gap by comparing the fit of a large set of interest rate rules (fifty-five in total), which they estimate within a simple New Keynesian model. They find that specifications in which monetary policy responds to inflation and to deviations of output from its efficient level—the one that would prevail in the absence of distortions—have the worst fit within the set they consider. Policies that respond to measures of the output gap based on statistical filters perform better, but the best-fitting rules are those that also track the evolution of the model-consistent efficient real interest rate.

No. 515, September 2011

Learning the Fiscal Theory of the Price Level: Some Consequences of Debt Management Policy

Stefano Eusepi and Bruce Preston

This paper examines how the scale and composition of public debt can affect economies that implement a combination of "passive" monetary policy and "active" fiscal policy. This policy configuration is argued to be of both historical and contemporary interest in the cases of the U.S. and Japanese economies. It is shown that higher average levels and moderate average maturities of debt can induce macroeconomic instability under a range of policies specified as simple rules. However, interest rate pegs in combination with active fiscal policies almost always ensure macroeconomic stability. This finding suggests that in periods where the zero lower bound on nominal interest rates is a relevant constraint on policy design, a switch in fiscal regime is desirable.

International

No. 508, August 2011

The Dynamics and Differentiation of Latin American Metal Exports

Benjamin Mandel

This paper investigates the propensity of exporters in certain primary commodity sectors to innovate and then attempts to measure the associated gains. The high degree of differentiation in metal products is giving rise to the potential for vertical upgrading for a substantial portion of Latin American export sales. Estimation of a demand system for U.S. imports shows that relatively high-priced new varieties tend to gain market share, which suggests a correspondingly large increase in the relative quality of those varieties. Breaking down the types of metal products by order of their value-added in production reveals a pattern of specialization away from low-value ores and toward high-value intermediate and finished products. Upgrading varieties and shifting specialization to downstream outputs account for the vast majority of Latin America's increasing market share in metals over the past thirty years.

No. 511, August 2011

Liquidity Management of U.S. Global Banks: Internal Capital Markets in the Great Recession

Nicola Cetorelli and Linda Goldberg

The recent crisis highlighted the importance of globally active banks in linking markets. One channel for this linkage is the liquidity management of these banks, specifically the regular flow of funds between parent banks and their affiliates in diverse foreign markets. Cetorelli and Goldberg use the Great Recession as an opportunity to identify the balance-sheet shocks to parent banks in the United States and then explore which features of foreign affiliates are associated with protecting, for example, their status as important locations in sourcing funding or as destinations for foreign investment activity. The authors show that distance from the parent organization plays a significant role in this allocation, where distance is bank-affiliate-specific and depends on the location's ex ante relative importance in local funding pools and overall foreign investment strategies. These flows are a form of global interdependence previously unexplored in the literature on international shock transmission.

Microeconomics

No. 509, August 2011

Inflation Expectations and Behavior: Do Survey Respondents Act on Their Beliefs?

Olivier Armantier, Wändi Bruine de Bruin, Giorgio Topa, Wilbert van der Klaauw, and Basit Zafar

The authors compare the inflation expectations reported by consumers in a survey with their behavior in a financially incentivized investment experiment designed such that future inflation affects payoffs. The inflation expectations survey is found to be informative in the sense that the beliefs reported by the respondents are correlated with their choices in the experiment. Furthermore, most respondents appear to act on their inflation expectations, showing patterns consistent (both in direction and magnitude) with expected utility theory. Respondents whose behavior cannot be rationalized tend to be less educated and to score lower on a numeracy and financial literacy scale. These findings are therefore the first to provide support to the microfoundations of modern macroeconomic models.

No. 514, September 2011

Real Estate Investors, the Leverage Cycle, and the Housing Market Crisis

Andrew Haughwout, Donghoon Lee, Joseph Tracy, and Wilbert van der Klaauw

The authors explore a mostly undocumented but important dimension of the housing market crisis: the role played by real estate investors. Using unique credit-report data, they document large increases in the share of purchases, and subsequently delinquencies, by real estate investors. In states that experienced the largest housing booms and busts, at the peak of the market almost half of purchase mortgage originations were associated with investors. In part by apparently misreporting their intentions to occupy the property, investors took on more leverage, contributing to higher rates of default. These findings have important implications for policies designed to address the consequences and recurrence of housing market bubbles.

No. 516, September 2011

Belief Updating among College Students: Evidence from Experimental Variation in Information

Matthew Wiswall and Basit Zafar

Wiswall and Zafar investigate how college students form and update their beliefs about future earnings using a unique "information" experiment. The authors provide college students with true information about the population distribution of earnings and observe how this information causes respondents to update their beliefs about their own future earnings. They show that college students are substantially misinformed about population earnings and logically revise their self-beliefs in response to the information provided to them, with larger revisions when the information is more specific and is good news. The authors classify the updating behaviors observed and find that the majority of students are non-Bayesian updaters.

Banking and Finance

No. 506, July 2011

Repo Runs: Evidence from the Tri-Party Repo Market

Adam Copeland, Antoine Martin, and Michael Walker

This paper provides a quantitative account of the tri-party repo market during the recent financial crisis. Using data from July 2008 to January 2010, the authors show that the level of haircuts and the amount of funding were surprisingly stable in this market. The stability of the haircuts contrasts with evidence from the bilateral repo market, where, as shown by Gorton and Metrick (2011), haircuts increased sharply. During the crisis, adjustments in the volume of funding to dealers were not gradual; instead, the amount of funding in the tri-party repo market can decrease precipitously. The study's findings suggest that runs in the triparty repo market resemble traditional bank runs.

No. 507, August 2011

Mapping Change in the Federal Funds Market

Morten L. Bech, Carl T. Bergstrom, Rodney J. Garratt, and Martin Rosvall

The authors use an information-theoretic approach to describe changes in lending relationships between federal funds market participants around the time of the Lehman Brothers failure. Unlike previous work that conducts maximum-likelihood estimation on undirected networks, this analysis distinguishes between borrowers and lenders and looks for broader lending relationships (multibank lending cycles) that extend beyond the immediate counterparties. The authors find that significant changes in lending patterns emerge following implementation of the Interest on Reserves policy by the Federal Reserve on October 9, 2008.

No. 512, September 2011

The Pre-FOMC Announcement Drift

David O. Lucca and Emanuel Moench

Since the Federal Open Market Committee (FOMC) began announcing its policy decisions in 1994, U.S. stock returns have on average been more than thirty times larger on announcement days than on other days. Surprisingly, these abnormal returns are accrued before the policy announcement. The excess returns earned during the twenty-four hours prior to scheduled FOMC announcements account for more than 80 percent of the equity premium over the past seventeen years. Similar results are found for major global equity indexes, but not for other asset classes or other economic news announcements. Lucca and Moench explore a few risk-based explanations of these findings, none of which can account for the return anomaly.

No. 513, September 2011
Decomposing Short-Term Return Reversal
Zhi Da, Qianqiu Liu, and Ernst Schaumburg

The profit to a standard short-term return reversal strategy can be decomposed analytically into four components: 1) across-industry return momentum, 2) within-industry variation in expected returns, 3) underreaction to within-industry cash flow news, and 4) a residual. Only the residual component, which isolates reaction to recent "nonfundamental" price changes, is significant and positive in the data. A simple short-term return reversal trading strategy designed to capture the residual component generates a highly significant risk-adjusted return three times the size of the standard reversal strategy during the authors' 1982-2009 sampling period. The decomposition suggests that short-term return reversal is pervasive, much greater than previously documented, and driven by investor sentiment on the short side and liquidity shocks on the long side.

No. 517, September 2011
An Analysis of CDS Transactions: Implications for Public Reporting
Kathryn Chen, Michael Fleming, John Jackson, Ada Li, and Asani Sarkar

This paper analyzes three months of global credit default swap (CDS) transactions and presents findings on the market composition, trading dynamics, and level of standardization. The authors find that trading activity in the CDS market is relatively low, with a majority of reference entities for single-name CDS trading less than once a day. They also find that a high proportion of CDS transactions conform to standardized contractual and trading conventions. Examining the dealer's role as market maker, they find that large trades with customers are generally not rapidly offset by further trades in the same reference entity, suggesting that hedging of large positions, if taking place, occurs over a longer time horizon. The authors provide a framework for regulators and policymakers to consider the design of the public reporting regime and the necessary improvements to data collection to facilitate meaningful price reporting for credit derivatives.

No. 518, September 2011
Market Declines: Is Banning Short Selling the Solution?
Robert Battalio, Hamid Mehran, and Paul Schultz

In response to the sharp decline in prices of financial stocks in the fall of 2008, regulators in a number of countries banned short selling of particular stocks and industries. Evidence suggests that these bans did little to stop the slide in stock prices, but significantly increased the cost of liquidity. In August 2011, the U.S. market experienced a large decline when Standard and Poor's announced a downgrade of U.S. debt. The authors' cross-sectional tests suggest that the decline in stock prices was not significantly driven or amplified by short selling. Short selling does not appear to be the root cause of recent stock market declines. Furthermore, banning short selling does not appear to prevent stock prices from falling when firm-specific or economy-wide economic fundamentals are weak, and may impose high costs on market participants.

Quantitative Methods

No. 504, July 2011
The Empirical Content of Models with Multiple Equilibria in Economies with Social Interactions
Alberto Bisin, Andrea Moro, and Giorgio Topa

Bisin, Moro, and Topa study a general class of models with social interactions that might display multiple equilibria. They propose an estimation procedure for these models and evaluate its efficiency and computational feasibility relative to different approaches taken to the curse of dimensionality implied by the multiplicity. Using data on smoking among teenagers, the authors implement the proposed estimation procedure to understand how group interactions affect health-related choices. They find that interaction effects are strong both at the school level and at the smaller friends-network level. Multiplicity of equilibria is pervasive at the estimated parameter values, and equilibrium selection accounts for about 15 percent of the observed smoking behavior. Counterfactuals show that student interactions, surprisingly, *reduce* smoking by approximately 70 percent with respect to the equilibrium smoking that would occur without interactions. ■

Research and Statistics Group Publications and Blog Posts: July–September 2011

ECONOMIC POLICY REVIEW

Forthcoming
Subprime Foreclosures and the 2005 Bankruptcy Reform
Donald P. Morgan, Benjamin Iverson, and Matthew Botsch

CURRENT ISSUES IN ECONOMICS AND FINANCE, VOL. 17

No. 4
Why Small Businesses Were Hit Harder by the Recent Recession
Ayşegül Şahin, Sagiri Kitao, Anna Cororaton, and Sergiu Laiu

No. 5
Saving Imbalances and the Euro Area Sovereign Debt Crisis
Matthew Higgins and Thomas Klitgaard

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LIBERTY STREET ECONOMICS BLOG

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Marking the End of LSAP 2
Robert Rich

July 6
Discretionary Services Expenditures in This Business Cycle
Jonathan McCarthy

July 11
Global Banks and Their Internal Capital Markets during the Crisis
Nicola Cetorelli and Linda S. Goldberg

July 13
Would a Stronger Renminbi Narrow the U.S.-China Trade Imbalance?
Matthew Higgins and Thomas Klitgaard

July 15
July's Empire State Manufacturing Survey Shows Ongoing Weakness in New York Manufacturing
Jason Bram and Richard Deitz

July 18
Which Firms Have Flexible Prices?
Rebecca Hellerstein and Pinelopi Goldberg

July 20
Stabilizing the Tri-Party Repo Market by Eliminating the "Unwind"
Antoine Martin

July 25
The Vanishing U.S.-E.U. Employment Gap
Christian Grisse, Thomas Klitgaard, and Ayşegül Şahin

July 27
Inflation Expectations and Behavior: Do Survey Respondents Act on Their Beliefs?
Olivier Armantier, Giorgio Topa, Wilbert van der Klaauw, and Basit Zafar

August 1
International Spillovers on Government Bond Yields: Are We All in the Same Boat?
Vivian Z. Yue and Leslie Shen

August 15
What to Make of Market Measures of Inflation Expectations?
David Lucca and Ernst Schaumburg

August 17
Tax Buyouts: Raising Government Revenues without Increasing Labor Tax Distortions
Marco Del Negro, Fabrizio Perri, and Fabiano Schivardi

August 22
A Look at the Accuracy of Policy Expectations
Richard Crump, Stefano Eusepi, and Emanuel Moench

August 24
Are Charter Schools Draining Private School Enrollment?
Rajashri Chakrabarti, Joydeep Roy, and Elizabeth Setren

August 24
July's Indexes of Coincident Economic Indicators Show Economic Activity Picking Up across the Region
James Orr

August 29
Local Hangovers: How the Housing Boom and Bust Affected Jobs in Metro Areas
Jaison R. Abel and Richard Deitz

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