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DATA REVISIONS AND THE IDENTIFICATION OF MONETARY POLICY SHOCKS

Monetary policy research using time-series methods has been criticized for using revised data that were not known to anyone during the actual period of empirical analysis. The Philadelphia Fed's real-time data set, developed by Dean Croushore and Tom Stark, however, gives researchers access to the original data releases that would have been used by analysts and policymakers in a given time period. How much of a difference does this information make to empirical analyses of monetary policy shocks?

This paper considers two approaches to addressing the fact that the macroeconomic data sets of econometricians are changing over time because of data revisions. The first approach is to assess the sensitivity of vector autoregression (VAR) estimates across different data vintages. The second approach considers a statistical model of data revisions and implements an alternative, real-time estimation strategy to overcome errors-in-variables biases. The authors conclude that the use of revised data in VAR analyses of monetary policy shocks may not be a serious limitation.

Working Paper 03-1, "Data Revisions and the Identification of Monetary Policy Shocks," Dean Croushore,

Federal Reserve Bank of Philadelphia, and Charles L. Evans, Federal Reserve Bank of Chicago

THE EFFECTS OF A BABY BOOM ON STOCK PRICES AND CAPITAL ACCUMULATION IN THE PRESENCE OF SOCIAL SECURITY

Is the stock market boom a result of the baby boom? In this paper Andrew B. Abel examines the long-term sustained increase in the value of the stock market over the period since 1980. He develops an overlapping generations model in which a baby boom is modeled as a high realization of a random birth rate and the price of capital is determined endogenously. A baby boom increases national saving and investment and thus causes an increase in the price of capital. The price of capital is mean-reverting, so the initial increase in the price of capital is followed by a decrease.

Social Security, according to the author, can potentially affect national saving and investment, though in the long run, it does not affect the price of capital.

Working Paper 03-2, "The Effects of a Baby Boom on Stock Prices and Capital Accumulation in the Presence of Social Security," Andrew B. Abel, The Wharton School of the University of Pennsylvania; NBER; and Visiting Scholar, Federal Reserve Bank of Philadelphia

NON-EXCLUSIVE CONTRACTS, COLLATERALIZED TRADE, AND A THEORY OF AN EXCHANGE

Liquid markets in which agents have limited capacity to sign exclusive contracts, as well as imperfect knowledge of previous transactions by others, raise the risk of an agent promising the same asset to multiple counterparties and subsequently defaulting. In this paper, Yaron Leitner shows that in such markets an exchange can arise as a very simple type of intermediary whose only role is to set limits on the number of contracts that agents can report. In addition, reporting can be voluntary. In some cases, these limits must be nonbinding in equilibrium, and reported trades must not be made public. A costly alternative to an exchange is collateralized trade, and the gains from an exchange increase when agents have more intangible capital or when markets are more liquid.

Working Paper 03-3, "Non-Exclusive Contracts, Collateralized Trade, and a Theory of an Exchange," Yaron Leitner, Federal Reserve Bank of Philadelphia

HOW STRONG IS CO-MOVEMENT IN EMPLOYMENT OVER THE BUSINESS CYCLE?

In this paper, the authors measure the degree of business-cycle co-movement in quarterly industry employment at state and regional levels. The analysis covers the years 1942 to 1995, a period that includes 10 national business cycles as defined by the National Bureau of Economic Research. The data indicate that there is co-movement in the business cycle across industries and across states but the degree of co-movement is relatively weak. The results suggest that the degree of co-movement across business cycles has risen over time and as

regions have grown in geographic size. The authors present evidence that the measured degree of co-movement is sensitive to the chosen periodicity of the data and that there is much greater cohesion across states for a given industry than across different industries within a state.

An investigation into the sources of cross-state variation in the level of business-cycle co-movements reveals that important determinants include the strength of input-output linkages within each state, the different effects of monetary policy actions on each state's employment, and the degree of industrial diversity within a state.

Working Paper 03-5, "How Strong Is Co-Movement in Employment Over the Business Cycle? Evidence from State/Industry Data," Gerald A. Carlino, Federal Reserve Bank of Philadelphia, and Robert H. DeFina, Villanova University

A SHORT-TERM MODEL OF THE FED'S PORTFOLIO CHOICE

What would happen if the Federal Reserve were to change the assets in its portfolio? In this paper, Dean Croushore creates a model in which the Fed, instead of using open-market operations in Treasury securities to increase the monetary base, engages in open-market operations in private securities or uses discount loans via a mechanism that allows banks to borrow as much as they would like at a fixed discount rate. The model demonstrates how a change in the Fed's portfolio would affect the economy's general equilibrium at a given point in time.

Working Paper 03-8, "A Short-Term Model of the Fed's Portfolio Choice," Dean Croushore, Federal Reserve Bank of Philadelphia