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NONTRADED GOODS AND THE BEHAVIOR OF EXCHANGE RATES

Empirical evidence suggests that movements in international relative prices (such as the real exchange rate) are large and persistent. Nontraded goods, both in the form of final consumption goods and as an input into the production of final tradable goods, are an important aspect behind international relative price movements. In this paper, the authors show that nontraded goods have important implications for exchange rate behavior, even though fluctuations in the relative price of nontraded goods account for a relatively small fraction of real exchange rate movements. In their quantitative study, nontraded goods magnify the volatility of exchange rates when compared to the model without nontraded goods. Cross-country correlations and the correlation of exchange rates with other macro variables are closer in line with the data. In addition, contrary to a large literature, standard alternative assumptions about the currency in which firms price their goods are virtually inconsequential for the properties of aggregate variables in the authors' model, other than the terms of trade.

Working Paper 06-9, "Nontraded Goods, Market Segmentation, and Exchange Rates,"

Michael Dotsey, Federal Reserve Bank of Philadelphia, and Margarida Duarte, Federal Reserve Bank of Richmond

INTERPRETING THE LINK BETWEEN TECHNOLOGY AND HUMAN CAPITAL

The positive correlations found between computer use and human capital are often interpreted as evidence that the adoption of computers has raised the relative demand for skilled labor, the widely touted hypothesis of skill-biased technological change. However, several models argue that the skill intensity of technology is endogenously determined by the relative supply of skilled labor. The authors use instruments for the supply of human capital coupled with a rich data set on computer usage by businesses to show that the supply of human capital is an important determinant of the adoption of personal computers. Their results suggest that great caution must be exercised in placing economic interpretations on the correlations often found between technology and human capital.

Working Paper 06-10, "Labor Supply and Personal Computer Adoption," Mark Doms, Federal Reserve Bank of San Francisco, and Ethan Lewis, Federal Reserve Bank of Philadelphia

USING THE NATIONAL INCOME ACCOUNTS TO QUANTIFY ECONOMIC ACTIVITY

This article presents a brief overview of the national income accounts. It summarizes the main parts of accounts and situates them within the efforts of economists to quantify economic activity and economic well-being. The author argues that these statistics are necessarily provisional and imperfect but nevertheless extremely useful. Some current directions for economic research seeking to extend the accounts are also discussed.

Working Paper 06-11, "National Income Accounts," Leonard Nakamura, Federal Reserve Bank of Philadelphia

UNDERSTANDING THE GREAT DEPRESSION

What caused the worldwide collapse in output from 1929 to 1933? Why was the recovery from the trough of 1933 so protracted for the U.S.? How costly was the decline in terms of welfare? Was the decline preventable? These are some of the questions that have motivated economists to study the Great Depression. In this paper,

the authors review some of the economic literature that attempts to answer these questions.

Working Paper 06-12, "Monetary and Financial Forces in the Great Depression," Satyajit Chatterjee, Federal Reserve Bank of Philadelphia, and Dean Corbae, University of Texas at Austin

EXTENDING THE JOB MATCHING MODEL

In the U.S. labor market, the vacancy-unemployment ratio and employment react sluggishly to productivity shocks. The authors show that the job matching model in its standard form cannot reproduce these patterns due to excessively rapid vacancy responses. Extending the model to incorporate sunk costs for vacancy creation yields highly realistic dynamics. Creation costs induce entrant firms to smooth the adjustment of new openings following a shock, leading the stock of vacancies to react sluggishly.

Working Paper 06-13, "Job Matching and Propagation," Shigeru Fujita, Federal Reserve Bank of Philadelphia, and Garey Ramey, University of California, San Diego

ANNOUNCEMENT AND CALL FOR PAPERS

The Federal Reserve Bank of Philadelphia, Rutgers University, and the University of Richmond

Real-Time Data Analysis and Methods in Economics

**April 19-20, 2007
Philadelphia, Pennsylvania**

The Research Department of the Federal Reserve Bank of Philadelphia, the Economics Department at Rutgers University, and the Robins School of Business at the University of Richmond are sponsoring a conference on *Real-Time Data Analysis and Methods in Economics* to be held at the Federal Reserve Bank of Philadelphia on April 19-20, 2007. The purpose of the conference is to bring together leading researchers interested in all areas of real-time data analysis, including but not limited to topics such as real-time macroeconometrics, finance, forecasting, and monetary policy.

Those interested in presenting a paper at the conference are encouraged to send a completed paper or detailed abstract by November 1, 2006, to Tom Stark at tom.stark@phil.frb.org. Discussions are underway with a number of journals, including the *Journal of Business and Economic Statistics*, about the possibility of publishing a special conference volume (though authors would not be compelled to publish their paper in such a volume), and a variety of leading researchers in the area have expressed interest in taking part. Additionally, a summary of the conference will be published in the Philadelphia Fed's *Business Review*. We will provide some travel expenses for paper presenters and discussants, following Federal Reserve guidelines. Conference details will be posted in due course on the websites of the conference organizers.

Questions or comments should be directed to one of the conference organizers:

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