CONSTRUCTING A “REGIONAL RESILIENCE INDEX”

In this paper, the author studies long-run population changes across U.S. metropolitan areas. First, the author argues that changes over a long period of time in the geographic distribution of population can be informative about the so-called “resilience” of regions. Using the censuses of population from 1790 to 2010, the author finds that persistent declines, lasting two decades or more, are somewhat rare among metropolitan areas in U.S. history, though more common recently. Incorporating data on historical factors, the author finds that metropolitan areas that have experienced extended periods of weak population growth tend to be smaller in population, less industrially diverse, and less educated. These historical correlations inform the construction of a regional resilience index.


ENHANCING THE DETECTION AND MEASUREMENT OF SYSTEMIC RISK

This paper sets forth a discussion framework for the information requirements of systemic financial regulation. It specifically describes a potentially large macro-micro database for the U.S. based on an extended version of the Flow of Funds. The author argues that such a database would have been of material value to U.S. regulators in ameliorating the recent financial crisis and could be of aid in understanding the potential vulnerabilities of an innovative financial system in the future. The author also suggests that making these data available to the academic research community, under strict confidentiality restrictions, would enhance the detection and measurement of systemic risk.


ADDRESSING THE EFFECT OF THE BLOCKING POWER OF SECOND MORTGAGES

Refinancing a first mortgage puts legal principles in conflict when other, junior, liens also exist. On one hand, the principle that seniority follows time priority leaves the new refinancing mortgage junior to mortgages that were junior to the original, refinanced first mortgage. On the other hand, the principle of equitable subrogation gives the refinancing mortgage the seniority of the claim it paid down. States resolve this tension differently, thus differentiating how much a second mortgage impedes refinancing of the first. The authors exploit this cross-state variation to identify the impact on mortgage refinancing and find that refinancing is significantly more likely in the states following the principle of equitable subrogation when the homeowner also has a second mortgage.

MAKING THE NORMATIVE CASE FOR DELAYING POLICY REFORM

This paper argues that there is a normative case for delaying policy reform. Policy design in dynamic economies typically faces a trade-off between the policy effects in the short and long term, and possibly across future states of nature. When the economy is in an atypical state or available policies are less flexible than ideal, this trade-off can be steep enough that retaining the status quo policy in the short term and taking on the reform at a later date are welfare improving. In a simple New Keynesian economy, the author considers monetary policy reform from discretion to the optimal targeting rule. He finds that the policy reform should be postponed if a sharp drop in output drives the nominal interest rate to the zero lower bound but only modest deflation pressures are observed under the status quo policy.


ANALYZING THE IMPACT OF TRANSACTIONS CREDIT ON INTEREST RATES AND PRICES

Using a segmented market model that includes state-dependent asset market decisions along with access to credit, the authors analyze the impact that transactions credit has on interest rates and prices. They find that the availability of credit substantially changes the dynamics in the model, allowing agents to significantly smooth consumption and reduce the movements in velocity. As a result, prices become quite flexible and liquidity effects are dampened. Thus, adding another medium of exchange whose use is calibrated to U.S. data has important implications for economic behavior in a segmented markets model.


EXAMINING THE EFFECTS OF MACROPRUDENTIAL POLICY AND MONETARY POLICY ON CREDIT AND INFLATION

This paper examines the different effects of macroprudential policy and monetary policy on credit and inflation using a simple New Keynesian model with credit. In this model, macroprudential policy is effective in stabilizing credit but has a limited effect on inflation. Monetary policy with an interest rate rule stabilizes inflation, but this rule is ‘too blunt’ an instrument to stabilize credit. The determinacy of the model requires the interest rate’s response to inflation to be greater than one for one and independent of macroprudential policy. That is, the ‘Taylor principle’ applies to monetary policy. This dichotomy between macroprudential policy and monetary policy arises because each policy is designed to differently affect the saving and borrowing decisions of households.


EXPLORING AN ALTERNATIVE CLASS OF ALGORITHMS FOR DSGE MODELS

The authors develop a sequential Monte Carlo (SMC) algorithm for estimating Bayesian dynamic stochastic general equilibrium (DSGE) models, wherein a particle approximation to the posterior is built iteratively through tempering the likelihood. Using three examples consisting of an artificial state-space model, the Smets and Wouters (2007) model, and SchmittGrohé and Uribe’s (2012) news shock model, the authors show that the SMC algorithm is better suited to multi-modal and irregular posterior distributions than the widely used random walk Metropolis-Hastings algorithm. Unlike standard Markov chain Monte Carlo (MCMC) techniques, the SMC algorithm is well suited to parallel computing.


HOW SHOULD MACROPRUDENTIAL POLICY AND MONETARY POLICY INTERACT TO ACHIEVE FINANCIAL STABILITY?

This paper examines the interactions of macroprudential policy and monetary policy in a New Keynesian
DSGE model with financial frictions. Macroprudential policy can stabilize credit cycles. However, a macroprudential instrument that aims to stabilize a specific segment of the credit market can cause regulatory arbitrage, that is, a reallocation of credit to a less regulated part of the market. Within this model, welfare-maximizing monetary policy aims to stabilize only inflation and macroprudential policy only stabilizes credit. Two aspects of the model account for this dichotomy. First, credit stabilization is welfare improving because lower volatility is compensated by higher mean equilibrium credit and capital. Second, monetary policy is suboptimal for credit stabilization. The reason is that it operates on the decisions of borrowers and savers, while macroprudential policy operates only on the decisions of borrowers.


EXAMINING THE EFFECTS OF FORGIVING DEFAULTS

Swedish law mandates the removal of information about past credit arrears from the individuals’ credit reports after three years. By exploiting a quasi-experimental variation in retention times caused by a change in the credit bureau’s timing of arrear removal, the authors are able to examine the causal effect of increased retention time on consumers’ short- to medium-run credit scores, loan applications, credit access, and future defaults. They find that a prolonged retention time increases the need for and access to credit relative to shorter retention times. Additionally, prolonged retention times seem to reduce the likelihood to default again two years after removal. The authors also find that in both regimes only a minority of the individuals (less than 27 percent) receive a new arrear within two years after removal, suggesting that only a minority of the individuals who received an arrear may be inherently high risk. Alternatively, their results may be interpreted as suggesting that removal of credit arrears may induce borrowers to exert greater effort along the lines of Vercammen (1995) and Elul and Gottardi (2007). Either interpretation opens the possibility that credit arrear removal is welfare enhancing.


EVALUATING THE IMPACT OF INTERNAL CONSUMPTION HABIT ON THE EMPIRICAL FIT OF NKDSGE MODELS

The authors study the implications of internal consumption habit for New Keynesian dynamic stochastic general equilibrium (NKDSGE) models. Bayesian Monte Carlo methods are employed to evaluate NKDSGE model fit. Simulation experiments show that internal consumption habit often improves the ability of NKDSGE models to match the spectra of output and consumption growth. Nonetheless, the fit of NKDSGE models with internal consumption habit is susceptible to the sources of nominal rigidity, to spectra identified by permanent productivity shocks, to the choice of monetary policy rule, and to the frequencies used for evaluation. These vulnerabilities indicate that the specification of NKDSGE models is fragile.