Discussion of "*How Human Economic Actors Co-operate and Organise*"

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Rebuilding Macro

Key Ideas

- Two very different papers related to the topic of cooperation
- Two important messages from the papers:
  1. Understanding the behaviours of people is important
  2. Uncertainty matters and different types of uncertainty are important

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- Two important messages from the papers:
  1. Understanding the behaviours of people is important
  2. Uncertainty matters and different types of uncertainty are important
- I agree with this big picture!

Economics is a social science

Social sciences are the scientific study of human society and social relationships. *Rerum cognoscere causas.*

Two Key Ideas

Questions not methods

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  - Other fields are complementary

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Two key aspects of being an economist:

1. Theory that stresses (not necessarily rational) equilibrium outcomes
   - 1.1 Role of information and strategic behaviour in the interaction of people
   - 1.2 Role of endogeneity of the state to the choices made
2. Econometric evaluation of the world takes great care

How detailed to model things?

- I like macro models
  - I learn economic channels from them
- But it doesn't mean I want the models I work with to include everything
- Key is to include things that matter for (interact with) the economic forces that you are trying to understand
  - exclude things that don't necessarily matter to understand the feedback loops but be ready to change your mind!

Some application to some of my work

Starting point of the paper

Central banks don't set monetary policy... people do.

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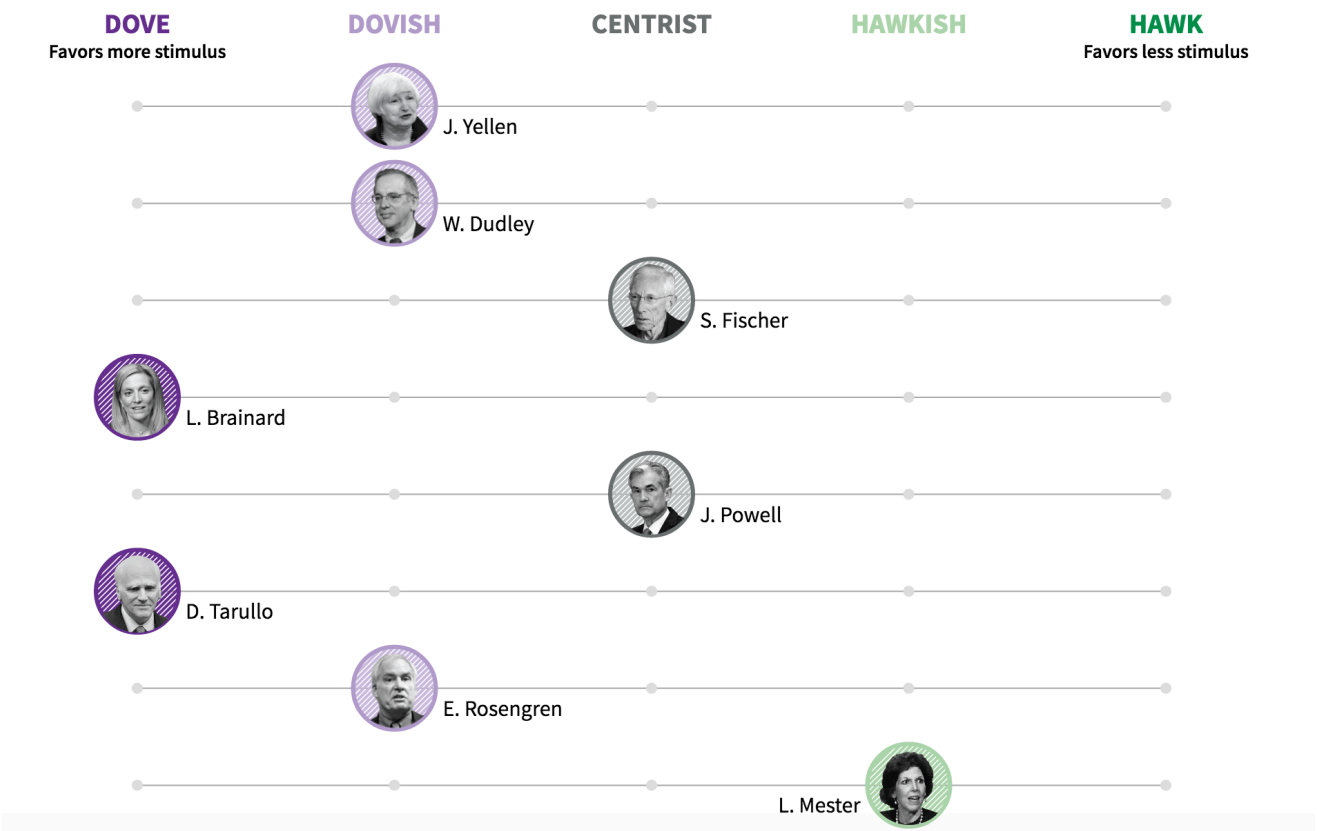


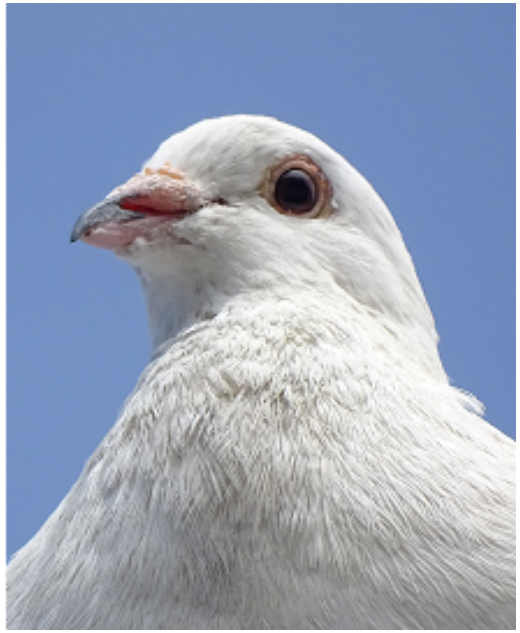
My Prior - I think it matters

If you're sitting in Spain and Portugal, you might well wonder whether you would have been better off with a German in charge, trying to show off his inner Italian - than an Italian desperate to prove he's German underneath. (BBC, 5 May 2011)

I. Avian or Hero Preferences?

A Steady-state Difference in outcomes?

Hawks are central bankers who put the inflation fight high above other goals. *Dovish* Fed members, meanwhile, have historically been inclined to tolerate a bit more price pressures, or at least the threat of them, if it allowed higher growth and better job gains.



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Preferences in Hansen, McMahon and Velasco (2015)

- θ is a members preference type
- higher (lower) θ means "hawkish" ("dovish")
- $\theta \equiv$ a members "burden of proof" (Feddersen & Pesendorfer (1998)):

		vote	
		0	1
state	0	0	$-(1-\theta)$
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Monetary Policy in Macro Models

- $i_m = \alpha \mathbb{E}\left[\omega_{m+h} \,\middle|\, I_m^{\text{CB}} \right] + \epsilon_m$ where $\varepsilon_m \sim \mathcal{N}(0, \sigma_\varepsilon^2)$

II. Experiment in Haldane and McMahon (2018)

- Ran an experiment on two samples
  - Public Sample
  - MPhil Sample (1st year graduate students)

Experiment involved:

1. Ask about knowledge of the IR
2. Ask questions on expectations for the economy
3. Randomly assigned a reading
   - Monetary Policy Summary
   - Layered content
4. Ask them questions based on reading

Regression analysis of communication experiment

Main Regressors	(1) Understand	(2) Understand
D(Layers)	0.71***	0.63***
	[0.00]	[0.00]
D(Economics)	0.54***	
	[0.00]	
BoE Confidence	0.10	0.16
	[0.10]	[0.29]
Constant	2.68***	3.63***
	[0.00]	[0.00]
Observations	285	68
R-squared	0.226	0.140
Estimation	OLS	OLS
Demographic Controls	Yes	No
Sample	Public	MPhil

Regression analysis of communication experiment

Main Regressors	(1) Understand	(2) Understand	(3) Δ Perception	(4) Δ Perception
D(Layers)	0.71***	0.63***	0.083	0.35**
	[0.00]	[0.00]	[0.33]	[0.01]
D(Economics)	0.54***		-0.032	
	[0.00]		[0.76]	
BoE Confidence	0.10	0.16	0.15***	-0.14
	[0.10]	[0.29]	[0.00]	[0.19]
Constant	2.68***	3.63***	3.19***	3.12***
	[0.00]	[0.00]	[0.00]	[0.00]
Observations	285	68	285	66
R-squared	0.226	0.140	0.055	0.111
Estimation	OLS	OLS	OLS	OLS
Demographic Controls	Yes	No	Yes	No
Sample	Public	MPhil	Public	MPhil

Regression analysis of communication experiment

Main Regressors	(1) Understand	(2) Understand	(3) Δ Perception	(4) Δ Perception	(5) D(Adjust)	(6) D(Adjust)
D(Layers)	0.71***	0.63***	0.083	0.35**	0.35**	0.090
	[0.00]	[0.00]	[0.33]	[0.01]	[0.04]	[0.78]
D(Economics)	0.54***		-0.032		-0.24	
	[0.00]		[0.76]		[0.32]	
BoE Confidence	0.10	0.16	0.15***	-0.14	-0.11	0.28
	[0.10]	[0.29]	[0.00]	[0.19]	[0.28]	[0.26]
Constant	2.68***	3.63***	3.19***	3.12***	-0.21	-0.81***
	[0.00]	[0.00]	[0.00]	[0.00]	[0.52]	[0.01]
Observations	285	68	285	66	285	68
R-squared	0.226	0.140	0.055	0.111		
Estimation	OLS	OLS	OLS	OLS	Probit	Probit
Demographic Controls	Yes	No	Yes	No	Yes	No
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Monetary Policy and Uncertainty

Greenspan: *'Uncertainty is not just an important feature of the monetary policy landscape; it is the defining characteristic of that landscape.'*

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Uncertainty is increasingly important in economics

- Macro effects: Bloom (2009) and Baker, Bloom and Davis (2016)
- Monetary policy

$$i_m = r^* + \pi^* + \phi_\pi \left(\mathbb{E}_m^{CB} [\pi_{m+h}] - \pi^* \right) + \phi_y \mathbb{E}_m^{CB} [\tilde{y}_{m+h}] + \epsilon_m$$

  1. reacts to exogenous shocks to the economy
  2. creates uncertainty that affects the macroeconomy

Clarity from communication?

- Greenspan spoke in Seattle at a banking conference in 2000
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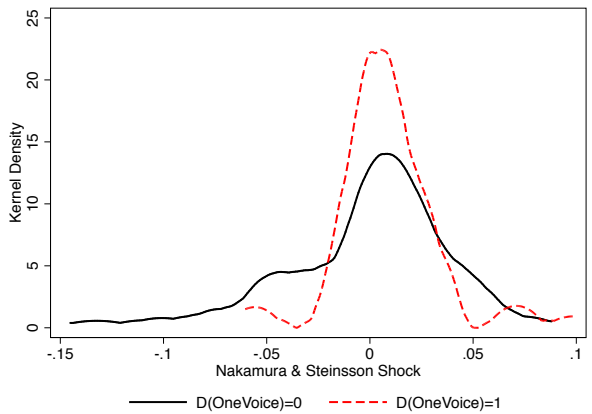
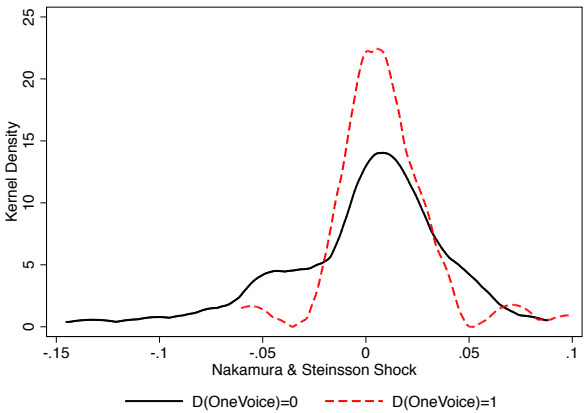
- How did the the media see it:
  - "Greenspan sees chance of recession" (NYT)
  - "Recession is unlikely, Greenspan concludes" (Washington Post)
  - "Recession risk up, Greenspan concludes" (Baltimore Sun)
  - "Fed chairman doesn't see recession on the horizon" (WSJ)

III. Cacophany of Voices

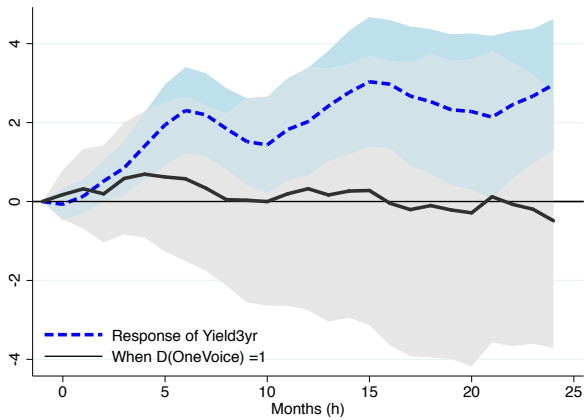


(a) Shocks by D(One Voice)

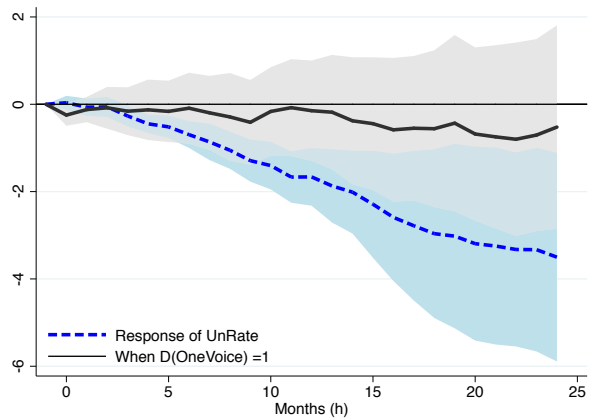
III. Cacophany of Voices



(d) Shocks by D(One Voice)



(e) IRF - 3-year Yields



(f) IRF - Unemployment

IV. Uncertainty Signals

Hansen, McMahon and Tong (2018)

1. Present a model of central bank communication that splits information effect into two distinct channels:
   - 1.1 Signals on *expected value* of future economic conditions.
   - 1.2 Signals on *uncertainty* around future economic conditions.
2. The effect of expectations (uncertainty) news declines (can increase substantially) along yield curve.
3. Use techniques from Big Data / Machine Learning and the Bank of England's Inflation Report to assess quantitative importance of the channels, show large impact of uncertainty news on long-run rates via term premiums.

Main implication: uncertainty channel for information effect.

Summary

Overall view

1. I agree with the broad view that:
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2. I view my field as determined by the questions I am answering rather than the approaches I take
3. I remain happy and proud to be a macroeconomist