

Economic Forecast

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January 15, 2015

Outline

- 1 Introduction
- 2 Central bank
- 3 Output gap
- 4 GDP components
- 5 Taylor rule

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Draw on what you learnt in EC271 and EC284

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- How do they see the economy?
- What is their main focus/concern?
- Do they have a specific mandate?
- When do they meet? How do they decide policy?
What is the nature of the usual policy change?

Output gap

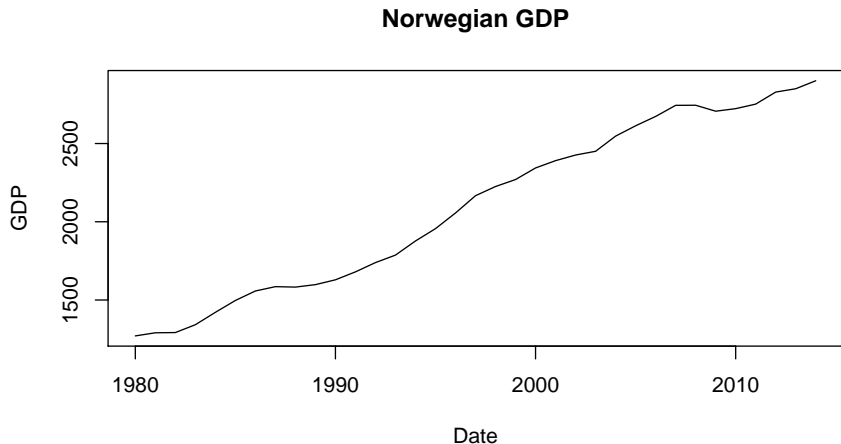


Figure: Norwegian real GDP

Finding the trend

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- Centered moving average

Taylor rule

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$$i_t = \pi_t + r_t^* + \alpha_\pi(\pi_t - \pi_t^*) + \alpha_y(y_t - \bar{y}_t)$$

where i_t is the nominal interest rate; π_t is the inflation rate; r_t^* is the real interest rate; y_t is GDP; π_t^* is the inflation target; \bar{y}_t is the potential rate of GDP growth; α_π is the elasticity of interest rates to inflation; α_y is the elasticity of interest rates to the potential growth rate.

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- OLS regression estimation of α_π and α_y
- What does the model say about interest rates?
- What happens to inflation, GDP or the exchange rate from this point?