Literature Report

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Abstract

Mismatch Shocks and Unemployment During the Great Recession

- Journal of Applied Econometrics---2016---Francesco Furlanetto,Nicolas Groshenny

2016

Time Variation in Macro-Financial Linkages

- Journal of Applied Econometrics---2016---Esteban Prieto,Sandra Eickmeier,Massimiliano Marcellino

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On the Importance of Sectoral and Regional Shocks for Price-Setting

- Journal of Applied Econometrics---2016---Guenter W. Beck,Kirstin Hubrich,Massimiliano Marcellino

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Forecasting Consumption: the Role of Consumer Confidence in Real Time with many Predictors

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Combining Time Variation and Mixed Frequencies: an Analysis of Government Spending Multipliers in Italy

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Bubbles and Crises: The Role of House Prices and Credit

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Optimal Portfolio Choice Under Decision-Based Model Combinations

- Journal of Applied Econometrics---2016---Davide Pettenuzzo,Francesco Ravazzolo

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Interconnections Between Eurozone and us Booms and Busts Using a Bayesian Panel Markov-Switching VAR Model

- Journal of Applied Econometrics---2016---Monica Billio,Roberto Casarin,Francesco Ravazzolo,Herman K. Van Dijk

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Forecasting with Global Vector Autoregressive Models: a Bayesian Approach

- Journal of Applied Econometrics---2016---Jesús Crespo Cuaresma,Martin Feldkircher,Florian Huber

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Noncausal Bayesian Vector Autoregression

- Journal of Applied Econometrics---2016---Markku Lanne,Jani Luoto

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A Cost System Approach to the Stochastic Directional Technology Distance Function with Undesirable Outputs: The Case of us Banks in 2001–2010

- Journal of Applied Econometrics---2016---Emir Malikov,Subal Kumbhakar,Mike G. Tsionas

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Optimal Control of Heteroscedastic Macroeconomic Models

- Journal of Applied Econometrics---2016---Vito Polito,Peter Spencer

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Outlier-Robust Bayesian Multinomial Choice Modeling

- Journal of Applied Econometrics---2016---Dries F. Benoit,Stefan Van Aelst,Dirk Van den Poel

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Demographics and Business Cycle Volatility: A Spurious Relationship?

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Replicating the Results in ‘A New Model of Trend Inflation’ Using Particle Markov Chain Monte Carlo

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Exponent of Cross-Sectional Dependence: Estimation and Inference

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Error Correction Testing in Panels with Common Stochastic Trends

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Daily House Price Indices: Construction, Modeling, and Longer-run Predictions

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Bayesian Fuzzy Regression Discontinuity Analysis and Returns to Compulsory Schooling

- Journal of Applied Econometrics---2016---Siddhartha Chib,Liana Jacobi

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Accounting for the Political Uncertainty Factor

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State Dependence and Stickiness of Sovereign Credit Ratings: Evidence from a Panel of Countries

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Forecasting with Bayesian Vector Autoregressions Estimated Using Professional Forecasts

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Determination of Long-run and Short-run Dynamics in EC-VARMA Models via Canonical Correlations

- Journal of Applied Econometrics---2016---George Athanasopoulos,Donald Poskitt,Farshid Vahid,Wenying Yao

2016

Effect of Online Dating on Assortative Mating: Evidence from South Korea

- Journal of Applied Econometrics---2016---Soohyung Lee

Online dating services have increased in popularity around the world, but a lack of quality data hinders our understanding of their role in family formation. This paper studies the effect of online dating services on marital sorting, using a novel dataset with verified information on people and their spouses. Estimates based on matching techniques suggest that, relative to other spouse search methods, online dating promotes marriages that exhibit weaker sorting along occupation and geographical proximity but stronger sorting along education and other demographic traits. Sensitivity analysis, including the Rosenbaum Bounds approach, suggests that online dating's impact on marital sorting is robust to potential selection bias. Copyright © 2015 John Wiley & Sons, Ltd.

Estimating Health Demand for an Aging Population: A Flexible and Robust Bayesian Joint Model

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Modelling Hospital Admission and Length of Stay by Means of Generalised Count Data Models

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Reassessing the Relative Power of the Yield Spread in Forecasting Recessions

- Journal of Applied Econometrics---2016---Dean Croushore,Katherine Marsten

2016

Replication of Grier, Henry, Olekalns and Shields (2004): the Asymmetric Effects of Uncertainty on Inflation and Output Growth

- Journal of Applied Econometrics---2016---Christos Savva

In their influential work Grier et al.(The asymmetric effects of uncertainty on inflation and output growth. Journal of Applied Econometrics 2004; 19 : 551–565) examine the effects of growth and inflation uncertainties on their average rates. The current study replicates their main results and performs a similar analysis on a more recent dataset. Their findings are confirmed to a large extent. Copyright © 2015 John Wiley & Sons, Ltd.

Sequential Monte Carlo Methods for Estimating Dynamic Microeconomic Models

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Modelling Inflation Volatility

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Factor-Based Identification-Robust Interference in IV Regressions

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A Semi-Parametric Analysis of Two-Sided Markets: An Application to the Local Daily Newspapers in the USA

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Borrowing Constraints and Credit Demand in a Developing Economy

- Journal of Applied Econometrics---2016---Jaime Ruiz-Tagle,Francis Vella,Jaime Ruiz-Tagle

2016

Econometric Methods for Modelling Systems With a Mixture of i(1) and i(0) Variables

- Journal of Applied Econometrics---2016---Lance A. Fisher,Hyeon-Seung Huh,Adrian Pagan

This paper considers structural models with both I(1) and I(0) variables. The structural shocks associated with either set of variables could be permanent or transitory. We classify the shocks as (P1,P0) and (T1,T0), where P/T distinguishes permanent/transitory, while 1/0 means they are attached to structural equations with either I(1) or I(0) variables as their ‘dependent’ variable. We show that P0 shocks can affect cointegration analysis and provide a formula to compute the permanent component if they are present. Finally, we reformulate a well-known empirical structural vector autoregression showing the impact of P0 shocks when there are just long-run parametric and sign restrictions. Copyright © 2015 John Wiley & Sons, Ltd.

Reanalyzing Zero Returns to Education in Germany

- Journal of Applied Econometrics---2016---Daniel A. Kamhöfer,Hendrik Schmitz

2016

Successful Scientific Replication and Extension of Levitt (2008): Child Seats are Still No Safer Than Seat Belts

- Journal of Applied Econometrics---2016---Lauren E. Jones,Nicolas Ziebarth

Using US fatality data from 1975 to 2003, Levitt (Evidence that seat belts are as effective as child safety seats in preventing death for children aged two and up, Review of Economics and Statistics 2008; 90 (1): 158–163) shows that child safety seats do not significantly reduce fatalities for children aged 2–6 years as compared to standard seat belts. Although we were unable to gain access to the original programs and dataset used, we were able to replicate Levitt's ( ) findings almost exactly. We extend Levitt ( ) by showing that the findings also hold for the years 2004–2011 despite changing driver characteristics and restraint use patterns. We fail to find evidence that SUVs provide additional safety for children. Copyright © 2015 John Wiley & Sons, Ltd.

ECB Monetary Policy Surprises: Identification Through Cojumps in Interest Rates

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The Zero Lower Bound and Parameter Bias in an Estimated DSGE Model

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A Smooth Transition Logit Model of The Effects of Deregulation in the Electricity Market

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Maintaining (Locus of) Control? Data Combination for the Identification and Inference of Factor Structure Models

- Journal of Applied Econometrics---2016---Rémi Piatek,Pia Pinger

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Simulation Estimation of Two-tiered Dynamic Panel Tobit Models with an Application to the labour Supply of Married Women: A Comment

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Estimating Bayesian Decision Problems with Heterogeneous Expertise

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Identification and Estimation of Distributional Impacts of Interventions Using Changes in Inequality Measures

- Journal of Applied Econometrics---2016---Sergio Firpo,Cristine Pinto

2016

Labor Supply as a Choice Among Latent Jobs: Unobserved Heterogeneity and Identification

- Journal of Applied Econometrics---2016---John K. Dagsvik,Zhiyang Jia

This paper discusses aspects of a modeling framework in which the notion of job choice is fundamental. In this framework, workers are assumed to have preferences over latent job opportunities belonging to worker-specific choice sets from which they choose their preferred job. The main contribution of this paper is an analysis of the identification problem under various conditions, when conventional cross-section micro-data are applied. The modeling framework is applied to analyze labor supply behavior for married/cohabiting couples using Norwegian micro data. Based on the empirical model, we discuss further qualitative properties of the model and simulation of counterfactual policy reforms. Copyright © 2015 John Wiley & Sons, Ltd.

Forecast Rationality Tests in the Presence of Instabilities, with Applications to Federal Reserve and Survey Forecasts

- Journal of Applied Econometrics---2016---Barbara Rossi,Tatevik Sekhposyan

2016

The Measurement and Behavior of Uncertainty: Evidence from the ECB Survey of Professional Forecasters

- Journal of Applied Econometrics---2016---Joshua Abel,Robert Rich,Joseph Song,Joseph Tracy

We examine matched point and density forecasts of output growth, inflation and unemployment from the ECB Survey of Professional Forecasters. We construct measures of uncertainty from individual histograms, and find that the measures display countercyclical behavior and have increased across all forecast horizons since 2007. We also derive measures of forecast dispersion and forecast accuracy, and find that they are not reliable proxies for uncertainty. There is, however, evidence of a meaningful co-movement between uncertainty and aggregate point predictions for output growth and unemployment. These results are robust to changes in the composition of the survey respondents over time. Copyright © 2015 John Wiley & Sons, Ltd.

A Bounded Model of Time Variation in Trend Inflation, Nairu and the Phillips Curve

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On the Low-Frequency Relationship Between Public Deficits and Inflation

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Growth Empirics in Panel Data Under Model Uncertainty and Weak Exogeneity

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A Social Interactions Model with Endogenous Friendship Formation and Selectivity

- Journal of Applied Econometrics---2016---Chih-Sheng Hsieh,Lung-Fei Lee

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Price Sensitivity of Demand for Prescription Drugs: Exploiting a Regression Kink Design

- Journal of Applied Econometrics---2016---Marianne Simonsen,Lars Skipper,Niels Skipper

We investigate price sensitivity of demand for prescription drugs, using drug purchase records for the entire Danish population. We identify price responsiveness by exploiting variation in prices caused by kinked reimbursement schemes and implement a regression kink design. The results suggest some price responsiveness with corresponding price elasticities ranging from 0.2 to 0.7. Individuals with chronic disease and especially individuals above the age of 65 respond less to the price of drugs. Copyright © 2015 John Wiley & Sons, Ltd.

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An Extension of the J-Test to a Spatial Panel Data Framework

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A Silver Lifeboat, not Silver Fetters: Why and how the Silver Standard Insulated China from the 1929 Great Depression

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Cross-Sectional Dependence in Panel Data Models: A Special Issue

- Journal of Applied Econometrics---2016---Jushan Bai,Badi Baltagi,M Pesaran

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Directed Tests of No Cross-Sectional Correlation in Large-N Panel Data Models

- Journal of Applied Econometrics---2016---Matei Demetrescu,Ulrich Homm

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Endogenous Spatial Regression and Delineation of Submarkets: A New Framework with Application to Housing Markets

- Journal of Applied Econometrics---2016---Arnab Bhattacharjee,Eduardo Castro,Taps Maiti,João Marques

Housing submarkets have been defined by different criteria: (i) similarity in house attributes; (ii) similarity in hedonic prices; and (iii) substitutability of houses. We show that spatial clustering on (i) and (ii) also satisfies criterion (iii) and develop inferences based on functional linear regression of a hedonic house price model. Then, we delineate submarkets by clustering (jointly) on the surfaces of the estimated functional partial effects and housing features. The above model incorporates both spatial heterogeneity and endogenous spatial dependence. Application to an urban conglomeration in Portugal implies submarkets that emphasize the historical and endogenous evolution of urban spatial structure.

Estimating the Dynamics and Persistence of Financial Networks, with an Application to the Sterling Money Market

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Estimation of Dynamic Panel Data Models with Cross-Sectional Dependence: Using Cluster Dependence for Efficiency

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Growth Determinants Revisited Using Limited-Information Bayesian Model Averaging

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Identification of Spatial Durbin Panel Models

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Panel Data Models with Grouped Factor Structure Under Unknown Group Membership

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The Effect of Fragmentation in Trading on Market Quality in the UK Equity Market

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Firm-Level Productivity Spillovers in China's Chemical Industry: A Spatial Hausman-Taylor Approach

- Journal of Applied Econometrics---2016---Badi Baltagi,Peter Egger,Michaela Kesina

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A Two-Stage Approach to Spatio-Temporal Analysis with Strong and Weak Cross-Sectional Dependence

- Journal of Applied Econometrics---2016---Natalia Bailey,Sean Holly,M Pesaran

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Modelling Technical Efficiency in Cross Sectionally Dependent Stochastic Frontier Panels

- Journal of Applied Econometrics---2016---Camilla Mastromarco,Laura Serlenga,Yongcheol Shin

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What Drives Oil Prices? Emerging Versus Developed Economies

- Journal of Applied Econometrics---2015---Knut Are Aastveit,Hilde Bjørnland,Leif Thorsrud

2015

The Measurement and Characteristics of Professional Forecasters' Uncertainty

- Journal of Applied Econometrics---2015---Gianna Boero,Jeremy Smith,Kenneth Wallis

Several statistical issues that arise in the construction and interpretation of measures of uncertainty from forecast surveys that include probability questions are considered, with application to the Bank of England Survey of External Forecasters. Substantial heterogeneity of individual forecasters' uncertainty is found, together with significant persistence in their relative uncertainty, which is a new finding in professional forecast surveys. It is an individual characteristic akin to the individual optimism and pessimism already established in the literature on point forecasts; the latter is also found in the current dataset, now in a bivariate sense with respect to joint inflation and output growth point forecasts. Whether disagreement among point forecasts is a useful indicator of uncertainty is shown to depend on the underlying macroeconomic environment.

Fiscal Policies and Credit Regimes: A TVAR Approach

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Extracting Nonlinear Signals from Several Economic Indicators

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Anticipating Long-Term Stock Market Volatility

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Estimating Incentive and Selection Effects in the Medigap Insurance Market: An Application with Dirichlet Process Mixture Model

- Journal of Applied Econometrics---2015---Xuequn Hu,Murat K. Munkin,Pravin Trivedi

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A Test of the Conditional Independence Assumption in Sample Selection Models

- Journal of Applied Econometrics---2015---Martin Huber,Blaise Melly

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Isolating the Roles of Individual Covariates in Reweighting Estimation

- Journal of Applied Econometrics---2015---Todd Elder,John H. Goddeeris,Steven Haider

A host of recent research has used reweighting methods to analyze the extent to which observable characteristics predict between-group differences in the distribution of an outcome. Less attention has been paid to using reweighting methods to isolate the roles of individual covariates. We analyze two approaches that have been used in previous studies, and we propose a new approach that examines the role of one covariate while holding the marginal distribution of the other covariates constant. We illustrate the differences between the methods with a numerical example and an empirical analysis of black–white wage differentials among males. Copyright © 2015 John Wiley & Sons, Ltd.

Refining Stylized Facts from Factor Models of Inflation

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A Hidden Markov Model Approach to Information-Based Trading: Theory and Applications

- Journal of Applied Econometrics---2015---Xiangkang Yin,Jing Zhao

This paper develops a novel approach to information-based securities trading by characterizing the hidden state of the market, which varies following a Markov process. Extensive simulation demonstrates that the approach can successfully identify market states and generate dynamic measures of information-based trading that outperform prevailing models. A sample of 120 NYSE stocks further verifies that it can better depict trading dynamics. With this sample, we characterize the features of information asymmetry and belief dispersion around earnings announcements. The sample is also applied to the study of the co-movements of trading activities due to private information or disputable public information. Copyright © 2014 John Wiley & Sons, Ltd.

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On the Empirical Failure of Purchasing Power Parity Tests

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Monetary Policy Indeterminacy and Identification Failures in the U.S.: Results from A Robust Test

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Macroeconomic Effects of Precautionary Demand for Oil

- Journal of Applied Econometrics---2015---Alessio Anzuini,Patrizio Pagano,Massimiliano Pisani

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Estimating and Forecasting the Yield Curve Using A Markov Switching Dynamic Nelson and Siegel Model

- Journal of Applied Econometrics---2015---Constantino Hevia,Martin Gonzalez-Rozada,Martin Sola,Fabio Spagnolo,Martin Gonzalez-Rozada

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Lag Order and Critical Values of the Augmented Dickey–Fuller Test: A Replication

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Spline Regression in the Presence of Categorical Predictors

- Journal of Applied Econometrics---2015---Shujie Ma,Jeffrey Racine,Lijian Yang

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Combining Matching and Nonparametric Instrumental Variable Estimation: Theory and An Application to the Evaluation of Active Labour Market Policies

- Journal of Applied Econometrics---2015---Markus Frölich,Michael Lechner

We show how instrumental variable and matching estimators can be combined in order to identify a broader array of treatment effects. Instrumental variable (IV) estimators are known to estimate effects only for the compliers, representing a subset of the entire population. By combining IV with matching, we can estimate the treatment effects for the always- and never-takers as well. Since in many cases these groups are the (endogenous) outcome of some assignment process, such estimates also help in judging the implications of such a selection process. In our application to the effects of participation in active labour market programmes in Switzerland, we find large and lasting positive employment effects for the compliers, whereas the effects for the always- and never-participants are small. In addition, the compliers have worse employment outcomes without treatment than those who participate in the programme with or without the intervention under investigation. This suggests that the earlier assignment policy of the caseworkers was inefficient in that the always-participants were neither those unemployed who would experience the highest expected treatment effects nor those unemployed who had the largest need for assistance. Copyright © 2014 John Wiley & Sons, Ltd.

Replacing Sample Trimming with Boundary Correction in Nonparametric Estimation of First-Price Auctions

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Doubly Robust Estimation of Causal Effects with Multivalued Treatments: An Application to the Returns to Schooling

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When Does the Stepping-Stone Work? Fixed-Term Contracts Versus Temporary Agency Work in Changing Economic Conditions

- Journal of Applied Econometrics---2015---Pauline Givord,Lionel Wilner

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A New Utility-Consistent Econometric Approach to Multivariate Count Data Modeling

- Journal of Applied Econometrics---2015---Chandra R. Bhat,Rajesh Paleti,Marisol Castro

In the current paper, we propose a new utility-consistent modeling framework to explicitly link a count data model with an event-type multinomial-choice model. The proposed framework uses a multinomial probit kernel for the event-type choice model and introduces unobserved heterogeneity in both the count and discrete-choice components. Additionally, this paper establishes important new results regarding the distribution of the maximum of multivariate normally distributed variables, which form the basis to embed the multinomial probit model within a joint modeling system for multivariate count data. The model is applied to analyzing out-of-home non-work episodes pursued by workers, using data from the National Household Travel Survey. Copyright © 2014 John Wiley & Sons, Ltd.

Effect of FDI and Time on Catching Up: New Insights from a Conditional Nonparametric Frontier Analysis

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Gender-Biased Breastfeeding in Egypt: Examining the Fertility Preference Hypotheses of Jayachandran and Kuziemko (2011)

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Local Adaptive Multiplicative Error Models for High-Frequency Forecasts

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Macroeconomic Forecasting Performance under Alternative Specifications of Time-Varying Volatility

- Journal of Applied Econometrics---2015---Todd Clark,Francesco Ravazzolo

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Sparse Partial Least Squares in Time Series for Macroeconomic Forecasting

- Journal of Applied Econometrics---2015---Julieta Fuentes,Pilar Poncela,Julio Rodríguez

Factor models have been applied extensively for forecasting when high-dimensional datasets are available. In this case, the number of variables can be very large. For instance, usual dynamic factor models in central banks handle over 100 variables. However, there is a growing body of literature indicating that more variables do not necessarily lead to estimated factors with lower uncertainty or better forecasting results. This paper investigates the usefulness of partial least squares techniques that take into account the variable to be forecast when reducing the dimension of the problem from a large number of variables to a smaller number of factors. We propose different approaches of dynamic sparse partial least squares as a means of improving forecast efficiency by simultaneously taking into account the variable forecast while forming an informative subset of predictors, instead of using all the available ones to extract the factors. We use the well-known Stock and Watson database to check the forecasting performance of our approach. The proposed dynamic sparse models show good performance in improving efficiency compared to widely used factor methods in macroeconomic forecasting. Copyright © 2014 John Wiley & Sons, Ltd.

The Contribution of Structural Break Models to Forecasting Macroeconomic Series

- Journal of Applied Econometrics---2015---Luc Bauwens,Gary Koop,Dimitris Korobilis,Jeroen V.K. Rombouts

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Speculation in the Oil Market

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Priors and Posterior Computation in Linear Endogenous Variable Models with Imperfect Instruments

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Simple Identification and Specification of Cointegrated Varma Models

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Narrow Replication of 'A Spatio-Temporal Model of House Prices in the Usa' Using R

- Journal of Applied Econometrics---2015---Giovanni Millo

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A Bayesian Semiparametric Competing Risk Model with Unobserved Heterogeneity

- Journal of Applied Econometrics---2015---Martin Burda,Matthew Harding,Jerry Hausman

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Missing in Asynchronicity: A Kalman-em Approach for Multivariate Realized Covariance Estimation

- Journal of Applied Econometrics---2015---Fulvio Corsi,Stefano Peluso,Francesco Audrino

2015

Analysis of Hospital Production: An Output Index Approach

- Journal of Applied Econometrics---2015---Martin Gaynor,Samuel Kleiner,William B. Vogt

In this study, we develop and implement an output index approach to the estimation of hospital cost functions that reflects the differentiated nature of hospital care. The approach combines the estimation of an output index within a flexible functional form. We find, in an application to California hospitals, evidence of scope economies across specialties within primary care, and diseconomies of scope within secondary and tertiary care. Minimum efficient scale is reached at larger levels of output than would be estimated by conventional techniques. These results indicate the importance of accounting for firm output heterogeneity when estimating cost functions. Copyright © 2014 John Wiley & Sons, Ltd.

Regression Discontinuity Applications with Rounding Errors in the Running Variable

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Visual Attention and Attribute Attendance in Multi-Attribute Choice Experiments

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Unraveling the Relationship Between Presidential Approval and the Economy: A Multidimensional Semiparametric Approach

- Journal of Applied Econometrics---2015---Michael Berlemann,Sören Enkelmann,Torben Kuhlenkasper

2015

Identification and Estimation of Engel Curves with Endogenous and Unobserved Expenditures

- Journal of Applied Econometrics---2015---Erich Battistin,Michele De Nadai

When dealing with the estimation of Engel curves, measurement errors in expenditure data and simultaneity are likely sources of endogeneity. In this paper we study identification of the parameters that characterize an Engel curve in the presence of both. We consider specifications where budget shares are polynomials in the logarithm of total expenditure, which is the case frequently encountered in empirical applications. We propose an estimation procedure which is an extension of that in Lewbel ( ) and exploits a control function assumption to correct for the endogeneity of the true unobserved total expenditure. Copyright © 2013 John Wiley & Sons, Ltd.

Hedonic Housing Prices in Paris: An Unbalanced Spatial Lag Pseudo-Panel Model with Nested Random Effects

- Journal of Applied Econometrics---2015---Badi Baltagi,Georges Bresson,Jean-Michel Etienne

2015

Is infrastructure capital productive? A dynamic heterogeneous approach

- Journal of Applied Econometrics---2015---Cesar Calderon,Enrique Moral-Benito,Luis Servén,Enrique Moral-Benito

This paper offers an evaluation of the output contribution of infrastructure. Using a panel time series approach and a large cross-country dataset, the paper estimates a long-run aggregate production function relating gross domestic product to human capital, physical capital, and a synthetic measure of infrastructure comprising transport, power and telecommunications. Tests of the cointegration rank allowing it to vary across countries reveal a common rank with a single cointegrating vector, which we interpret as the long-run production function. Estimation of its parameters is performed using the pooled mean group (PMG) estimator, which allows for unrestricted short-run parameter heterogeneity across countries while imposing the (testable) restriction of long-run parameter homogeneity. The long-run elasticity of output with respect to the synthetic infrastructure index ranges between 0.07 and 0.10. The estimates are highly significant, both statistically and economically, and robust to alternative dynamic specifications and infrastructure measures. Tests of parameter homogeneity fail to yield evidence that the long-run parameters differ across countries. Copyright © 2014 John Wiley & Sons, Ltd.

Monetary Policy and the Housing Market: A Structural Factor Analysis

- Journal of Applied Econometrics---2015---Matteo Luciani

This paper studies the role of the Federal Reserve's policy in the recent boom and bust of the housing market, and in the ensuing recession. By estimating a structural dynamic factor model on a panel of 109 US quarterly variables from 1982 to 2010, we find that, although the Federal Reserve's policy between 2002 and 2004 was slightly expansionary, its contribution to the recent housing cycle was negligible. We also show that a more restrictive policy would have smoothed the cycle but not prevented the recession. We thus find no role for the Federal Reserve in causing the recession. Copyright © 2013 John Wiley & Sons, Ltd.

Dsge Models in the Frequency Domains

- Journal of Applied Econometrics---2015---Luca Sala

2015

Has the Euro-Mediterranean Partnership Affected Mediterranean Business Cycles?

- Journal of Applied Econometrics---2015---Fabio Canova,Alain Schlaepfer

We date turning points of the reference cycle for 19 Mediterranean countries and analyze their structure and interdependencies. Fluctuations are volatile and not highly correlated across countries; recessions are deep but asynchronous, the distribution of output losses in recessions spread out. Heterogeneities across countries and regions are substantial. Cyclical fluctuations are poorly related to trade and financial linkages. Mediterranean cycles are time varying but their evolution is not linked with the Euro-Mediterranean partnership process. Copyright © 2013 John Wiley & Sons, Ltd.

Do High-Frequency Data Improve High-Dimensional Portfolio Allocations?

- Journal of Applied Econometrics---2015---Nikolaus Hautsch,Lada M. Kyj,Peter Malec

2015

Volatility of Price Indices for Heterogeneous Goods with Applications to the Fine Art Market

- Journal of Applied Econometrics---2015---Fabian Y. R. P. Bocart,Christian Hafner

Price indices for heterogeneous goods such as real estate or fine art constitute crucial information for institutional or private investors considering alternative investment decisions in times of financial markets turmoil. Classical mean-variance analysis of alternative investments has been hampered by the lack of a systematic treatment of volatility in these markets. In this paper we propose a hedonic regression framework which explicitly defines an underlying stochastic process for the price index, allowing to treat the volatility parameter as the object of interest. The model can be estimated using maximum likelihood in combination with the Kalman filter. We derive theoretical properties of the volatility estimator and show that it outperforms the standard estimator. We show that extensions to allow for time-varying volatility are straightforward using a local-likelihood approach. In an application to a large data set of international blue chip artists, we show that volatility of the art market, although generally lower than that of financial markets, has risen after the financial crisis of 2008–09, but sharply decreased during the recent debt crisis. Copyright © 2013 John Wiley & Sons, Ltd.

Cost and Preference Heterogeneity in Risky Financial Markets

- Journal of Applied Econometrics---2015---Graciela Sanroman

This paper estimates the magnitude of participation costs and preference parameters exploiting information on households' participation decisions in the equities market. A structural model for portfolio choices over the life cycle is solved numerically. The parameters of interest are estimated using an Indirect Inference approach which makes use of the computed participation gains/losses. Participation costs are found to be significant, education and lagged participation being the major sources of heterogeneity. Also, the least educated are the least risk averse, and the positive effect of risk aversion on wealth accumulation dominates its negative influence on the risky asset demand. Copyright © 2013 John Wiley & Sons, Ltd.

Finding Sensitivity to Scope in Nonmarket Valuation

- Journal of Applied Econometrics---2015---Juha Siikamäki,Douglas M. Larson

Data limitations frequently prevent using actual consumer behavior in determining natural resource values, so stated preference methods are used. Whether value estimates show sensitivity to the scope of resource valued is a key test for their validity, which several studies fail. Developing a correlated panel mixed logit model of households' water quality valuations in California, we show that false negatives in scope tests can result when individual preference variation and correlation are ignored and split-sample comparisons are used. Monte Carlo simulations further demonstrate potentially prevalent false rejections of scope sensitivity even when within-subject comparisons of willingness to pay portray strong scope sensitivity. Copyright © 2013 John Wiley & Sons, Ltd.

R&D, Innovation and Knowledge Spillovers: A Reappraisal of Bottazzi and Peri (2007) in the Presence of Cross-Sectional Dependence

- Journal of Applied Econometrics---2015---Anna Bottasso,Carolina Castagnetti,Maurizio Conti

2015

Cointegration in Panel Data with Structural Breaks and Cross-Section Dependence

- Journal of Applied Econometrics---2015---Anindya Banerjee,Josep Lluís Carrion-i-Silvestre,Josep Lluís Carrion-i-Silvestre

The power of standard panel cointegration statistics may be affected by misspecification errors if structural breaks in the parameters generating the process are not considered. In addition, the presence of cross-section dependence among the panel units can distort the empirical size of the statistics. We therefore design a testing procedure that allows for both structural breaks and cross-section dependence when testing the null hypothesis of no cointegration. The paper proposes test statistics that can be used when one or both features are present. We illustrate our proposal by analysing the pass-through of import prices on a sample of European countries. Copyright © 2013 John Wiley & Sons, Ltd.

When Does Government Debt Crowd Out Investment?

- Journal of Applied Econometrics---2015---Nora Traum,Shu-Chun S. Yang

We examine when government debt crowds out investment for the US economy using an estimated New Keynesian model with detailed fiscal specifications and accounting for monetary and fiscal policy interactions. Whether investment is crowded in or out in the short term depends on policy shocks triggering debt expansions: higher debt can crowd in investment for cutting capital tax rates or increasing government investment. Contrary to the conventional view, no systematic relationships between real interest rates and investment exist, explaining why reduced-form regressions are inconclusive about crowding out. At longer horizons, distortionary financing is important for the negative investment response to debt. Copyright © 2013 John Wiley & Sons, Ltd.

Bayesian VARs: Specification Choices and Forecast Accuracy

- Journal of Applied Econometrics---2015---Andrea Carriero,Todd Clark,Massimiliano Marcellino

In this paper we discuss how the point and density forecasting performance of Bayesian vector autoregressions (BVARs) is affected by a number of specification choices. We adopt as a benchmark a common specification in the literature, a BVAR with variables entering in levels and a prior modeled along the lines of Sims and Zha (International Economic Review 1998; 39 : 949–968). We then consider optimal choice of the tightness, of the lag length and of both; evaluate the relative merits of modeling in levels or growth rates; compare alternative approaches to h-step-ahead forecasting (direct, iterated and pseudo-iterated); discuss the treatment of the error variance and of cross-variable shrinkage; and assess rolling versus recursive estimation. Finally, we analyze the robustness of the results to the VAR size and composition (using also data for France, Canada and the UK, while the main analysis is for the USA). We obtain a large set of empirical results, but the overall message is that we find very small losses (and sometimes even gains) from the adoption of specification choices that make BVAR modeling quick and easy, in particular for point forecasting. This finding could therefore further enhance the diffusion of the BVAR as an econometric tool for a vast range of applications. Copyright © 2013 John Wiley & Sons, Ltd.

Evaluating Point and Density Forecasts of DSGE Models

- Journal of Applied Econometrics---2015---Maik Wolters

2015

A Theoretical Foundation for the Nelson–Siegel Class of Yield Curve Models

- Journal of Applied Econometrics---2015---Leo Krippner

2015

Using OLS to Estimate and Test for Structural Changes in Models with Endogenous Regressors

- Journal of Applied Econometrics---2015---Pierre Perron,Yohei Yamamoto

We consider the problem of estimating and testing for multiple breaks in a single-equation framework with regressors that are endogenous, i.e. correlated with the errors. We show that even in the presence of endogenous regressors it is still preferable, in most cases, to simply estimate the break dates and test for structural change using the usual ordinary least squares (OLS) framework. Except for some knife-edge cases, it delivers estimates of the break dates with higher precision and tests with higher power compared to those obtained using an instrumental variable (IV) method. Also, the OLS method avoids potential weak identification problems caused by weak instruments. To illustrate the relevance of our theoretical results, we consider the stability of the New Keynesian hybrid Phillips curve. IV-based methods only provide weak evidence of instability. On the other hand, OLS-based ones strongly indicate a change in 1991:Q1 and that after this date the model loses all explanatory power. Copyright © 2013 John Wiley & Sons, Ltd.

Econometric Regime Shifts and the US Subprime Bubble

- Journal of Applied Econometrics---2015---Andre Anundsen

2015

Relative Risk Aversion and Power-Law Distribution of Macroeconomic Disasters

- Journal of Applied Econometrics---2015---Michał Brzeziński

2015

INTRODUCTION TO RECENT ADVANCES IN METHODS AND APPLICATIONS FOR DSGE MODELS

- Journal of Applied Econometrics---2014---Fabio Canova,Frank Schorfheide,Herman Dijk

2014

RARE SHOCKS, GREAT RECESSIONS

- Journal of Applied Econometrics---2014---Vasco Cúrdia,Marco Negro,Daniel L. Greenwald

2014

ESTIMATING FISCAL LIMITS: THE CASE OF GREECE

- Journal of Applied Econometrics---2014---Huixin Bi,Nora Traum

2014

SEQUENTIAL MONTE CARLO SAMPLING FOR DSGE MODELS

- Journal of Applied Econometrics---2014---Edward Herbst,Frank Schorfheide

2014

CHOOSING THE VARIABLES TO ESTIMATE SINGULAR DSGE MODELS

- Journal of Applied Econometrics---2014---Fabio Canova,Filippo Ferroni,Christian Matthes

2014

MIXED-FREQUENCY STRUCTURAL MODELS: IDENTIFICATION, ESTIMATION, AND POLICY ANALYSIS

- Journal of Applied Econometrics---2014---Claudia Foroni,Massimiliano Marcellino

2014

PRACTICAL TOOLS FOR POLICY ANALYSIS IN DSGE MODELS WITH MISSING SHOCKS

- Journal of Applied Econometrics---2014---Dario Caldara,Richard Harrison,Anna Lipinska

2014

POSTERIOR-PREDICTIVE EVIDENCE ON US INFLATION USING EXTENDED NEW KEYNESIAN PHILLIPS CURVE MODELS WITH NON-FILTERED DATA

- Journal of Applied Econometrics---2014---Nalan Baştürk,Cem Çakmaklı,Sanli Ceyhan Darendeli,Herman van Dijk

2014

IDENTIFICATION ISSUES IN LIMITED-INFORMATION BAYESIAN ANALYSIS OF STRUCTURAL MACROECONOMIC MODELS

- Journal of Applied Econometrics---2014---Frank Kleibergen,Sophocles Mavroeidis

2014

SALES, INVENTORIES AND REAL INTEREST RATES: A CENTURY OF STYLIZED FACTS

- Journal of Applied Econometrics---2014---Luca Benati,Thomas A. Lubik

2014

WHO REALLY WANTS TO BE A MILLIONAIRE? ESTIMATES OF RISK AVERSION FROM GAMESHOW DATA

- Journal of Applied Econometrics---2014---Roger Hartley,Gauthier Lanot,Ian Walker

SUMMARY This paper estimates the degree of risk aversion from one of the most popular TV gameshows ever. The format of the show is straightforward; it involves no strategic decision making; we have a large number of observations; and the prizes are cash, which is paid immediately and covers a large range: from

£100 up to £1 million. We provide non-parametric estimates of the utility function and then we test some parametric restrictions. We find that, although the restriction to CRRA utility is statistically rejected, a log function approximates the utility function quite well over a large range of potential winnings. Copyright © 2013 John Wiley & Sons, Ltd.

CHILD MENTAL HEALTH AND EDUCATIONAL ATTAINMENT: MULTIPLE OBSERVERS AND THE MEASUREMENT ERROR PROBLEM

- Journal of Applied Econometrics---2014---David Johnston,Carol Propper,Stephen Pudney,Michael Shields

SUMMARY We examine the effect of survey measurement error on the empirical relationship between child mental health and personal and family characteristics, and between child mental health and educational progress. Our contribution is to use unique UK survey data that contain (potentially biased) assessments of each child's mental state from three observers (parent, teacher and child), together with expert (quasi-)diagnoses, using an assumption of optimal diagnostic behaviour to adjust for reporting bias. We use three alternative restrictions to identify the effect of mental disorders on educational progress. Maternal education and mental health, family income and major adverse life events are all significant in explaining child mental health, and child mental health is found to have a large influence on educational progress. Our preferred estimate is that a one-standard-deviation reduction in 'true' latent child mental health leads to a 2- to 5-month loss in educational progress. We also find a strong tendency for observers to understate the problems of older children and adolescents compared to expert diagnosis. Copyright © 2013 John Wiley & Sons, Ltd.

SEMI-PARAMETRIC ESTIMATION OF PROGRAM IMPACTS ON DISPERSION OF POTENTIAL WAGES

- Journal of Applied Econometrics---2014---Stacey Chen,Shakeeb Khan

SUMMARY We propose the use of instrumental variables and pairwise matching to identify the average treatment effect on variance in potential outcomes. We show that identifying and estimating program impact on dispersion of potential outcomes in an endogenous-switching model is possible, without using the identification-at-infinity argument, if we impose semi-parametric conditions or shape restrictions on the error structure. In the presence of a multi-valued or continuously distributed instrument, we recommend the pairwise-matching method under a set of symmetry conditions. Simulations and an empirical example show that the matching method is much more precise than the instrumental-variable approach. Copyright © 2013 John Wiley & Sons, Ltd.

IDENTIFYING CAUSAL MECHANISMS (PRIMARILY) BASED ON INVERSE PROBABILITY WEIGHTING

- Journal of Applied Econometrics---2014---Martin Huber

SUMMARY This paper demonstrates the identification of causal mechanisms of a binary treatment under selection on observables, (primarily) based on inverse probability weighting; i.e. we consider the average indirect effect of the treatment, which operates through an intermediate variable (or mediator) that is situated on the causal path between the treatment and the outcome, as well as the (unmediated) direct effect. Even under random treatment assignment, subsequent selection into the mediator is generally non-random such that causal mechanisms are only identified when controlling for confounders of the mediator and the outcome. To tackle this issue, units are weighted by the inverse of their conditional treatment propensity given the mediator and observed confounders. We show that the form and applicability of weighting depend on whether some confounders are themselves influenced by the treatment or not. A simulation study gives the intuition for these results and an empirical application to the direct and indirect health effects (through employment) of the US Job Corps program is also provided. Copyright © 2013 John Wiley & Sons, Ltd.

HOW BELIEFS ABOUT HIV STATUS AFFECT RISKY BEHAVIORS: EVIDENCE FROM MALAWI

- Journal of Applied Econometrics---2014---Aureo de Paula,Gil Shapira,Petra E. Todd

SUMMARY This paper examines how beliefs about own HIV status affect decisions to engage in risky sexual behavior, as measured by having extramarital sex and/or multiple sex partners. The empirical analysis is based on a panel survey of males from the 2006 and 2008 rounds of the Malawi Diffusion and Ideational Change Project (MDICP). The paper develops a behavioral model of the belief-risky behavior relationship and estimates the causal effect of beliefs on risky behavior using the Arellano and Carrasco (2003) semiparametric panel data estimator, which accommodates both unobserved heterogeneity and belief endogeneity arising from a possible dependence of current beliefs on past risky behavior. Results show that downward revisions in the belief assigned to being HIV positive increase risky behavior and upward revisions decrease it. For example, based on a linear specification, a decrease in the perceived probability of being HIV positive from 10 to 0 percentage points increases the probability of engaging in risky behavior (extramarital affairs) from 8.3 to 14.1 percentage points. We also develop and implement a modified version of the Arellano and Carrasco (2003) estimator to allow for misreporting of risky behavior and find estimates to be robust to a range of plausible misreporting levels. © 2013 The Authors. Journal of Applied Econometrics published by John Wiley & Sons, Ltd.

DOES CORESIDENCE IMPROVE AN ELDERLY PARENT'S HEALTH?

- Journal of Applied Econometrics---2014---Meliyanni Johar,Shiko Maruyama

SUMMARY It is generally believed that intergenerational coresidence by elderly parents and adult children provides old-age security for parents. Although such coresidence is still the most common living arrangement in many countries, empirical evidence of its benefits to parental health is scarce. Using Indonesian data and a program evaluation technique that accounts for non-random selection and heterogeneous treatment effect, we find robust evidence of a negative coresidence effect. We also find heterogeneity in the coresidence effect. Socially active elderly parents are less likely to be in coresidence, and when they do live with a child they experience a better coresidence effect. Copyright © 2013 John Wiley & Sons, Ltd.

RETURN TO EXPERIENCE AND INITIAL WAGE LEVEL: DO LOW WAGE WORKERS CATCH UP?

- Journal of Applied Econometrics---2014---Kenneth Sørensen,Rune Vejlin

SUMMARY This paper estimates the relationship between initial wage and return to experience. We use a Mincer-like wage model to non-parametrically estimate this relationship allowing for an unobservable individual permanent effect in wages and unobservable individual return to experience. The relationship between return to experience and unobservable individual ability is negative when conditioning on educational attainment, while the relationship between return to experience and educational attainment is positive. We link our findings to three main theories of wage growth, namely search, unobserved productivity and learning, and human capital. We devise several empirical tests in order to separate the theories. We find evidence in favor of the unobserved productivity and learning model and mixed evidence regarding the search model. We find no evidence in support of the human capital model. Copyright © 2013 John Wiley & Sons, Ltd.

SMOOTH QUANTILE-BASED MODELING OF BRAND SALES, PRICE AND PROMOTIONAL EFFECTS FROM RETAIL SCANNER PANELS

- Journal of Applied Econometrics---2014---Harry Haupt,Kathrin Kagerer,Winfried J. Steiner

SUMMARY Semiparametric quantile regression is employed to flexibly estimate sales response for frequently purchased consumer goods. Using retail store-level data, we compare the performance of models with and without monotonic smoothing for fit and prediction accuracy. We find that (a) flexible models with monotonicity constraints imposed on price effects dominate both in-sample and out-of-sample comparisons while being robust even at the boundaries of the price distribution when data is sparse; (b) quantile-based confidence intervals are much more accurate compared to least-squares-based intervals; (c) specifications reflecting that managers may not have exact knowledge about future competitive pricing perform extremely well. Copyright © 2013 John Wiley & Sons, Ltd.

Forecasting interest rates with shifting endpoints

- Journal of Applied Econometrics---2014---Dick Dijk,Siem Jan Koopman,Michel Wel,Jonathan H. Wright

SUMMARY We consider forecasting the term structure of interest rates with the assumption that factors driving the yield curve are stationary around a slowly time-varying mean or ‘shifting endpoint’. The shifting endpoints are captured using either (i) time series methods (exponential smoothing) or (ii) long-range survey forecasts of either interest rates or inflation and output growth, or (iii) exponentially smoothed realizations of these macro variables. Allowing for shifting endpoints in yield curve factors provides substantial and significant gains in out-of-sample predictive accuracy, relative to stationary and random walk benchmarks. Forecast improvements are largest for long-maturity interest rates and for long-horizon forecasts. Copyright © 2013 John Wiley & Sons, Ltd.

FORECASTING DISCONNECTED EXCHANGE RATES

- Journal of Applied Econometrics---2014---Travis Berge

SUMMARY The inability of empirical models to forecast exchange rates has given rise to the belief that exchange rates are disconnected from macroeconomic fundamentals. This paper addresses the potential disconnect by endogenously selecting forecast models from a broad set of fundamentals. The procedure shows that exchange rates are not disconnected from fundamentals, but fundamentals vary in their predictive content at different forecast horizons and for different currencies. Performing model selection out-of-sample is challenging. At short horizons, the method cannot outperform a random walk, although the performance is improved at long horizons. These findings are confirmed across currencies and forecast evaluation methods. Copyright © 2013 John Wiley & Sons, Ltd.

CONSTRUCTING OPTIMAL DENSITY FORECASTS FROM POINT FORECAST COMBINATIONS

- Journal of Applied Econometrics---2014---Wagner Gaglianone,Luiz Lima

SUMMARY Decision makers often observe point forecasts of the same variable computed, for instance, by commercial banks, IMF and the World Bank, but the econometric models used by such institutions are frequently unknown. This paper shows how to use the information available on point forecasts to compute optimal density forecasts. Our idea builds upon the combination of point forecasts under general loss functions and unknown forecast error distributions. We use real-time data to forecast the density of US inflation. The results indicate that the proposed method materially improves the real-time accuracy of density forecasts vis-à-vis those from the (unknown) individual econometric models. Copyright © 2013 John Wiley & Sons, Ltd.

THE DYNAMICS OF REAL EXCHANGE RATES: A RECONSIDERATION

- Journal of Applied Econometrics---2014---Hendrik Kaufmann,Florian Heinen,Philipp Sibbertsen

SUMMARY In this paper we offer a bootstrap-based version of the Cox specification test for non-nested hypothesis to discriminate between ESTAR and MSAR models. Both models are commonly used for modeling real exchange rates dynamics. We show that the test has good size and power properties in finite samples. In an application, we analyze several major real exchange rates to shed light on the question of which model describes these processes best. This allows us to draw conclusions about the driving forces of real exchange rates. Copyright © 2013 John Wiley & Sons, Ltd.

REALIZED BETA GARCH: A MULTIVARIATE GARCH MODEL WITH REALIZED MEASURES OF VOLATILITY

- Journal of Applied Econometrics---2014---Peter Hansen,Asger Lunde,Valeri Voev

2014

THE ROLE OF CONDITIONAL HETEROSKEDASTICITY IN IDENTIFYING AND ESTIMATING LINEAR TRIANGULAR SYSTEMS, WITH APPLICATIONS TO ASSET PRICING MODELS THAT INCLUDE A MISMEASURED FACTOR

- Journal of Applied Econometrics---2014---Todd Prono

SUMMARY A new estimator is proposed for linear triangular systems, where identification results from the model errors following a bivariate and diagonal GARCH(1,1) process with potentially time-varying error covariances. This estimator applies when traditional instruments are unavailable. I demonstrate its usefulness on asset pricing models like the capital asset pricing model and Fama–French three-factor model. In the context of a standard two-pass cross-sectional regression approach, this estimator improves the pricing performance of both models. Set identification bounds and an associated estimator are also provided for cases where the conditions supporting point identification fail. Copyright © 2013 John Wiley & Sons, Ltd.

MODELLING REGIME SWITCHING AND STRUCTURAL BREAKS WITH AN INFINITE HIDDEN MARKOV MODEL

- Journal of Applied Econometrics---2014---Yong Song

SUMMARY This paper proposes an infinite hidden Markov model to integrate the regime switching and structural break dynamics in a unified Bayesian framework. Two parallel hierarchical structures, one governing the transition probabilities and another governing the parameters of the conditional data density, keep the model parsimonious and improve forecasts. This flexible approach allows for regime persistence and estimates the number of states automatically. An application to US real interest rates compares the new model to existing parametric alternatives. Copyright © 2013 John Wiley & Sons, Ltd.

A MOMENT-MATCHING METHOD FOR APPROXIMATING VECTOR AUTOREGRESSIVE PROCESSES BY FINITE-STATE MARKOV CHAINS

- Journal of Applied Econometrics---2014---Nikolay Gospodinov,Damba Lkhagvasuren

SUMMARY This paper proposes a moment-matching method for approximating vector autoregressions by finite-state Markov chains. The Markov chain is constructed by targeting the conditional moments of the underlying continuous process. The proposed method is more robust to the number of discrete values and tends to outperform the existing methods for approximating multivariate processes over a wide range of the parameter space, especially for highly persistent vector autoregressions with roots near the unit circle. Copyright © 2013 John Wiley & Sons, Ltd.

ESTIMATION OF CENSORED PANEL-DATA MODELS WITH SLOPE HETEROGENEITY

- Journal of Applied Econometrics---2014---Jason Abrevaya,Shu Shen

SUMMARY This paper considers estimation of censored panel-data models with individual-specific slope heterogeneity. The slope heterogeneity may be random (random slopes model) or related to covariates (correlated random slopes model). Maximum likelihood and censored least-absolute deviations estimators are proposed for both models. The estimators are simple to implement and, in the case of maximum likelihood, lead to straightforward estimation of partial effects. The rescaled bootstrap suggested by Andrews (Econometrica 2000; 68 : 399–405) is used to deal with the possibility of variance parameters being equal to zero. The methodology is applied to an empirical study of Dutch household portfolio choice, where the outcome variable (portfolio share in safe assets) has corner solutions at zero and one. As predicted by economic theory, there is strong evidence of correlated random slopes for the age profiles, indicating a heterogeneous age profile of portfolio adjustment that varies significantly with other household characteristics.

A TIP OF THE ICEBERG? THE PROBABILITY OF CATCHING CARTELS

- Journal of Applied Econometrics---2014---Peter L. Ormosi

SUMMARY Reliable estimates of crime detection probabilities could help in designing better sanctions and improve our understanding of the efficiency of law enforcement. For cartels, we only have limited knowledge on the rate at which these illegal practices are discovered. In comparison to previous works, this paper offers a more parsimonious and simple-to-use method to estimate time-dependent cartel discovery rates, while allowing for heterogeneity across firms. It draws on capture–recapture methods that are frequently used in ecology to make inferences on various wildlife population characteristics. An application of this method provides evidence that less than a fifth of cartelising firms are discovered.

ROUNDING, FOCAL POINT ANSWERS AND NONRESPONSE TO SUBJECTIVE PROBABILITY QUESTIONS

- Journal of Applied Econometrics---2014---Kristin Kleinjans,Arthur van Soest

SUMMARY We develop a panel data model explaining answers to subjective probabilities about binary events and estimate it using data from the Health and Retirement Study on six such probabilities. The model explicitly accounts for several forms of ‘reporting behavior’ : rounding, focal point ‘50%’ answers and item nonresponse. We find observed and unobserved heterogeneity in the tendencies to report rounded values or a focal answer, explaining persistency in 50% answers over time. Focal 50% answers matter for some of the probabilities. Incorporating reporting behavior does not have a large effect on the estimated distribution of the genuine subjective probabilities.

WHO BENEFITS FROM JOB CORPS? A DISTRIBUTIONAL ANALYSIS OF AN ACTIVE LABOR MARKET PROGRAM

- Journal of Applied Econometrics---2014---Ozkan Eren,Serkan Ozbeklik

SUMMARY Using recently developed econometric techniques to estimate quantile treatment effects (QTE) and experimental data, we examine the impact of Job Corps on earnings distribution. Our results indicate a great deal of heterogeneity in the effects of Job Corps. The QTEs show an increasing pattern along the earnings distribution, with much more pronounced differences at the upper quantiles for males, whites, and ages 20–24. Moreover, we find the QTEs to be very small at quantiles below the median for males, ages 16–17 and 18–19, and non-resident students. We propose strong economic conditions and skill hypotheses to explain the heterogeneity observed over the earnings distribution.

MULTIPLE TESTING AND HETEROGENEOUS TREATMENT EFFECTS: RE-EVALUATING THE EFFECT OF PROGRESA ON SCHOOL ENROLLMENT

- Journal of Applied Econometrics---2014---Soohyung Lee,Azeem Shaikh

SUMMARY The effect of a program or treatment may vary according to observed characteristics. In such a setting, it may not only be of interest to determine

whether the program or treatment has an effect on some sub-population defined by these observed characteristics, but also to determine for which sub-populations, if any, there is an effect. This paper treats this problem as a multiple testing problem in which each null hypothesis in the family of null hypotheses specifies whether the program has an effect on the outcome of interest for a particular sub-population. We develop our methodology in the context of PROGRESA, a large-scale poverty-reduction program in Mexico. In our application, the outcome of interest is the school enrollment rate and the sub-populations are defined by gender and highest grade completed. Under weak assumptions, the testing procedure we construct controls the familywise error rate—the probability of even one false rejection—in finite samples. Similar to earlier studies, we find that the program has a significant effect on the school enrollment rate, but only for a much smaller number of sub-populations when compared to results that do not adjust for multiple testing. Copyright © 2013 John Wiley & Sons, Ltd.

MULTIPLE EVENT INCIDENCE AND DURATION ANALYSIS FOR CREDIT DATA INCORPORATING NON-STOCHASTIC LOAN MATURITY

- Journal of Applied Econometrics---2014---John G. T. Watkins,Andrey Vasnev,Richard Gerlach

SUMMARY Applications of duration analysis in economics and finance exclusively employ methods for events of stochastic duration. In application to credit data, previous research incorrectly treats the time to predetermined maturity events as censored stochastic event times. The medical literature has binary parametric ‘cure rate’ models that deal with populations that never experienced the modelled event. We propose and develop a multinomial parametric incidence and duration model, incorporating such populations. In the class of cure rate models, this is the first fully parametric multinomial model and is the first framework to accommodate an event with predetermined duration. The methodology is applied to unsecured personal loan credit data provided by one of Australia's largest financial services organizations. This framework is shown to be more flexible and predictive through a simulation and empirical study that reveals: simulation results of estimated parameters with a large reduction in bias; superior forecasting of duration; explanatory variables can act in different directions upon incidence and duration; and variables exist that are statistically significant in explaining only incidence or duration. Copyright © 2013 John Wiley & Sons, Ltd.

APPLYING BETA-TYPE SIZE DISTRIBUTIONS TO HEALTHCARE COST REGRESSIONS

- Journal of Applied Econometrics---2014---Andrew Jones,James Lomas,Nigel Rice

SUMMARY This paper extends the literature on modelling healthcare cost data by applying the generalised beta of the second kind (GB2) distribution to English hospital inpatient cost data. A quasi-experimental design, estimating models on a sub-population of the data and evaluating performance on another sub-population, is used to compare this distribution with its nested and limiting cases. While for these data the beta of the second kind (B2) distribution and generalised gamma (GG) distribution outperform the GB2, our results illustrate that the GB2 can be used as a device for choosing among competing parametric distributions for healthcare cost data. Copyright © 2013 John Wiley & Sons, Ltd.

ESTIMATING PERSON-CENTERED TREATMENT (PeT) EFFECTS USING INSTRUMENTAL VARIABLES: AN APPLICATION TO EVALUATING PROSTATE CANCER TREATMENTS

- Journal of Applied Econometrics---2014---Anirban Basu

SUMMARY This paper builds on the methods of local instrumental variables developed by Heckman and Vytlacil (1999, 2001, 2005) to estimate person-centered treatment (PeT) effects that are conditioned on the person's observed characteristics and averaged over the potential conditional distribution of unobserved characteristics that lead them to their observed treatment choices. PeT effects are more individualized than conditional treatment effects from a randomized setting with the same observed characteristics. PeT effects can be easily aggregated to construct any of the mean treatment effect parameters and, more importantly, are well suited to comprehend individual-level treatment effect heterogeneity. The paper presents the theory behind PeT effects, and applies it to study the variation in individual-level comparative effects of prostate cancer treatments on overall survival and costs. Copyright © 2013 John Wiley & Sons, Ltd.

STRATEGIC ASSET ALLOCATION FOR LONG-TERM INVESTORS: PARAMETER UNCERTAINTY AND PRIOR INFORMATION

- Journal of Applied Econometrics---2014---Roy Hoevenaars,Roderick D. J. Molenaar,Peter C. Schotman,Tom B. M. Steenkamp

SUMMARY We study the effect of parameter uncertainty on the long-run risk for three asset classes: stocks, bills and bonds. Using a Bayesian vector autoregression with an uninformative prior we find that parameter uncertainty raises the annualized long-run volatilities of all three asset classes proportionally with the same factor relative to volatilities that are conditional on maximum likelihood parameter estimates. As a result, the horizon effect in optimal asset allocations is much weaker compared to models in which only equity returns are subject to parameter uncertainty. Results are sensitive to alternative informative priors, but generally the term structure of risk for stocks and bonds is relatively flat for investment horizons up to 15 years. Copyright © 2013 John Wiley & Sons, Ltd.

MODELLING LARGE OPEN ECONOMIES WITH INTERNATIONAL LINKAGES: THE USA AND EURO AREA

- Journal of Applied Econometrics---2014---Mardi Dungey,Denise Osborn

SUMMARY Empirical modelling of the linkages between the euro area and the USA requires an open economy framework. The methodology proposed in this paper achieves identification of a structural vector error correction model by supplementing restrictions from economic theory with assumptions for the direction of causality in cross-country contemporaneous relationships. Our baseline model assumes contemporaneous causality runs from the USA to the euro area for both output and inflation, with monetary policy domestically focused. The role of the USA as leading the euro area business cycle is reinforced by our results, but strong bidirectional cross-country interactions are uncovered for inflation and interest rates. Copyright © 2013 John Wiley & Sons, Ltd.

UNCOVERING THE COMMON RISK-FREE RATE IN THE EUROPEAN MONETARY UNION

- Journal of Applied Econometrics---2014---Rien J. L. M. Wagenvoort,Sanne Zwart

SUMMARY We introduce longitudinal factor analysis (LFA) to extract the common risk-free (CRF) rate from a sample of sovereign bonds of countries in a monetary union. Since LFA exploits the typically very large longitudinal dimension of bond data, it performs better than traditional factor analysis methods that rely on the much smaller cross-sectional dimension. European sovereign bond yields for the period 2006–2011 are decomposed into a CRF rate, a default risk premium and a liquidity risk premium. Our empirical findings suggest that investors chase both credit quality and liquidity, and that they price double default risk on credit default swaps. Copyright © 2013 John Wiley & Sons, Ltd.

TESTS OF EQUAL FORECAST ACCURACY FOR OVERLAPPING MODELS

- Journal of Applied Econometrics---2014---Todd Clark,Michael McCracken

SUMMARY This paper examines the asymptotic and finite-sample properties of tests of equal forecast accuracy when the models being compared are overlapping in the sense of Vuong (Econometrica 1989; 57 : 307–333). Two models are overlapping when the true model contains just a subset of variables common to the larger sets of variables included in the competing forecasting models. We consider an out-of-sample version of the two-step testing procedure recommended by Vuong but also show that an exact one-step procedure is sometimes applicable. When the models are overlapping, we provide a simple-to-use fixed-regressor wild bootstrap that can be used to conduct valid inference. Monte Carlo simulations generally support the theoretical results: the two-step procedure is conservative, while the one-step procedure can be accurately sized when appropriate. We conclude with an empirical application comparing the predictive content of credit spreads to growth in real stock prices for forecasting US real gross domestic product growth. Copyright © 2013 John Wiley & Sons, Ltd.

THE PREDICTABILITY OF AGGREGATE CONSUMPTION GROWTH IN OECD COUNTRIES: A PANEL DATA ANALYSIS

- Journal of Applied Econometrics---2014---Gerdie Everaert,Lorenzo Pozzi

SUMMARY We examine aggregate consumption growth predictability. We derive a dynamic consumption equation which encompasses relevant predictability factors: habit formation, intertemporal substitution, current income consumption and non-separabilities between private consumption and both hours worked and government consumption. We estimate this equation for a panel of 15 OECD countries over the period 1972–2007, taking into account parameter heterogeneity, endogeneity and error cross-sectional dependence using a GMM version of the common correlated effects mean group estimator. Small-sample properties are demonstrated using Monte Carlo simulations. The estimation results support income growth as the only variable with significant predictive power for aggregate consumption growth. Copyright © 2013 John Wiley & Sons, Ltd.

THE ROLE OF INVENTORIES AND SPECULATIVE TRADING IN THE GLOBAL MARKET FOR CRUDE OIL

- Journal of Applied Econometrics---2014---Lutz Kilian,Daniel Murphy

SUMMARY We develop a structural model of the global market for crude oil that for the first time explicitly allows for shocks to the speculative demand for oil as well as shocks to flow demand and flow supply. The speculative component of the real price of oil is identified with the help of data on oil inventories. Our estimates rule out explanations of the 2003–2008 oil price surge based on unexpectedly diminishing oil supplies and based on speculative trading. Instead, this surge was caused by unexpected increases in world oil consumption driven by the global business cycle. There is evidence, however, that speculative demand shifts played an important role during earlier oil price shock episodes including 1979, 1986 and 1990. Our analysis implies that additional regulation of oil markets would not have prevented the 2003–2008 oil price surge. We also show that, even after accounting for the role of inventories in smoothing oil consumption, our estimate of the short-run price elasticity of oil demand is much higher than traditional estimates from dynamic models that do not account for for the endogeneity of the price of oil. Copyright © 2013 John Wiley & Sons, Ltd.

DISENTANGLING DEMAND AND SUPPLY SHOCKS IN THE CRUDE OIL MARKET: HOW TO CHECK SIGN RESTRICTIONS IN STRUCTURAL VARS

- Journal of Applied Econometrics---2014---Helmut Lütkepohl,Aleksei Netšunajev

SUMMARY Sign restrictions have become increasingly popular for identifying shocks in structural vector autoregressive (SVAR) models. So far there are no techniques for validating the shocks identified via such restrictions. Although in an ideal setting the sign restrictions specify shocks of interest, sign restrictions may be invalidated by measurement errors, data adjustments or omitted variables. We model changes in

the volatility of the shocks via a Markov switching (MS) mechanism and use this device to give the data a chance to object to sign restrictions. The approach is illustrated by considering a small model for the market of crude oil. Earlier findings that oil supply shocks explain only a very small fraction of movements in the price of oil are confirmed and it is found that the importance of aggregate demand shocks for oil price movements has declined since the mid 1980s. Copyright © 2013 John Wiley & Sons, Ltd.

IS ECONOMIC RECOVERY A MYTH? ROBUST ESTIMATION OF IMPULSE RESPONSES

- Journal of Applied Econometrics---2014---C. N. Teulings,Nick Zubanov

SUMMARY We estimate the impulse response function (IRF) of GDP to a banking crisis using an extension of the local projections method. We demonstrate that, though robust to misspecifications of the data-generating process, this method suffers from a hitherto unnoticed bias which increases with the forecast horizon. We propose a correction to this bias and show through simulations that it works well. Applying our corrected local projections estimator to the data from a panel of 99 countries observed between 1974 and 2001, we find that an average banking crisis yields a GDP loss of just under 10% in 10 years, with little sign of recovery. Like the original local projections method, our extension of it is widely applicable. Copyright © 2013 John Wiley & Sons, Ltd.

FURTHER EVIDENCE ON THE SPATIO-TEMPORAL MODEL OF HOUSE PRICES IN THE UNITED STATES

- Journal of Applied Econometrics---2014---Badi Baltagi,Jing Li

SUMMARY Holly, Pesaran, and Yamagata (Journal of Econometrics 2010; 158 : 160–173) use a panel of 49 states over the period 1975–2003 to show that state-level real housing prices are driven by economic fundamentals, such as real per capita disposable income, as well as by common shocks, such as changes in interest rates, oil prices and technological change. They apply the common correlated effects estimator of Pesaran (Econometrica 2006; 74 (4): 967–101), which takes into account spatial interactions that reflect both geographical proximity and unobserved common factors. This paper replicates their results using a panel of 381 metropolitan statistical areas observed over the period 1975–2011. Our replication shows that their results are fairly robust to the more geographically refined cross-section units, and to the updated period of study. Copyright © 2013 John Wiley & Sons, Ltd.

STATE DEPENDENCE AND HETEROGENEITY IN HEALTH USING A BIAS-CORRECTED FIXED-EFFECTS ESTIMATOR

- Journal of Applied Econometrics---2014---Jesus Carro,Alejandra Traferri

SUMMARY This paper estimates a dynamic ordered probit model of self-assessed health with two fixed effects: one in the linear index equation and one in the cut-points. This robustly controls for heterogeneity in unobserved health status and in reporting behavior, although we cannot separate both sources of heterogeneity. We find important state dependence effects, and small but significant effects of income and other socioeconomic variables. Having dynamics and flexibly accounting for unobserved heterogeneity matters for those estimates. We also contribute to the bias correction literature in nonlinear panel models by comparing and applying two of the existing proposals to our model. Copyright © 2012 John Wiley & Sons, Ltd.

THE EFFECTS OF EXPANDING THE GENEROSITY OF THE STATUTORY SICKNESS INSURANCE SYSTEM

- Journal of Applied Econometrics---2014---Nicolas Ziebarth,Martin Karlsson

SUMMARY This article evaluates an expansion of employer-mandated sick leave from 80% to 100% of forgone gross wages in Germany. We employ and compare parametric difference-in-difference (DID), matching DID and mixed approaches. Overall workplace absences increased by at least 10% or 1 day per worker per year. We show that taking partial compliance into account increases coefficient estimates. Further, heterogeneity in response behavior was of great importance. There is no evidence that the increase in sick leave improved employee health, a finding that supports a shirking explanation. Finally, we provide evidence on potential labor market adjustments to the reform.

DIVORCE LAW REFORMS AND DIVORCE RATES IN THE USA: AN INTERACTIVE FIXED-EFFECTS APPROACH

- Journal of Applied Econometrics---2014---Dukpa Kim,Tatsushi Oka

SUMMARY This paper estimates the effects of unilateral divorce laws on divorce rates in the USA from a panel of state-level divorce rates. We use the interactive fixed-effects model to address the issue of endogeneity due to the association between cross-state unobserved heterogeneity and divorce law reforms. We document that earlier studies in the literature do not fully control for unobserved heterogeneity and result in mixed empirical evidence on the effects of divorce law reforms. While reconciling these conflicting results, our results suggest that divorce law reforms have temporal positive effects on divorce rates, thus confirming the 2006 findings of Wolfers. Via simulation experiments, we assess the degree to which faulty inclusion or faulty exclusion of interactive fixed effects affects the policy effect estimators. Our results suggest that faulty inclusion only results in efficiency loss whereas faulty exclusion causes bias.

HOW SENSITIVE ARE RETIREMENT DECISIONS TO FINANCIAL INCENTIVES? A STATED PREFERENCE ANALYSIS

- Journal of Applied Econometrics---2014---Arthur van Soest,Hana Vonkova

SUMMARY We study the effects of financial incentives on retirement decisions using stated preference data. Dutch survey respondents were given hypothetical retirement scenarios describing age(s) of (partial and full) retirement and replacement rate(s). A stylized model is estimated in which utility is the discounted sum of within-period utilities that depend on employment status and income. Parameters of the utility function vary with observed and unobserved characteristics. Simulations show that the income and substitution effects of pensions as a function of the retirement age are substantial and larger than according to studies using data on actual retirement decisions in the Netherlands.

TIME VARIATION IN THE DYNAMICS OF WORKER FLOWS: EVIDENCE FROM NORTH AMERICA AND EUROPE

- Journal of Applied Econometrics---2014---Michele Campolieti,Deborah Gefang,Gary Koop

SUMMARY Vector autoregressive methods have been used to model the interrelationships between job vacancy rates, job separation rates and job-finding rates using tools such as impulse response analysis. We investigate whether such impulse responses change across the business cycle or over time, by estimating time-varying parameter–vector autoregressions for data from North America (the USA and Canada) and Europe (France, Spain and the UK). While the adjustment process of the labour market to shocks in Canada and the USA is similar, we find the adjustment process differs much more across the European countries, with greater persistence in shocks relative to the USA and Canada.

THE DEMAND FOR GASOLINE: EVIDENCE FROM HOUSEHOLD SURVEY DATA

- Journal of Applied Econometrics---2014---Dongfeng Chang,Apostolos Serletis

SUMMARY In this paper we investigate the demand for gasoline in Canada using recent annual expenditure data from the Canadian Survey of Household Spending, over a 13-year period from 1997 to 2009, on three expenditure categories in the transportation sector:

gasoline, local transportation, and intercity transportation. In doing so, we use three of the most widely used locally flexible functional forms, the Almost Ideal Demand System (AIDS) of Deaton and Muellbauer (1980), the quadratic AIDS (QUAIDS) of Banks et al. (1997)—an extension of the simple AIDS model that can generate quadratic Engel curves—and the Minflex Laurent model of Barnett (1983), which can also generate quadratic Engel curves. We pay explicit attention to economic regularity, argue that unless regularity is attained by luck, flexible functional forms should always be estimated subject to regularity as suggested by Barnett (2002), and impose local curvature to produce inference consistent with neoclassical microeconomic theory. Our findings indicate that the curvature-constrained Minflex Laurent model is the only model that is able to provide theoretically consistent estimates of the Canadian demand for gasoline. Our estimates show that the own-price elasticity for gasoline demand in Canada is between 0.738 and 0.570 —less elastic than previously reported in the literature. Copyright © 2013 John Wiley & Sons, Ltd.

IDENTIFYING THE RESPONSE OF FERTILITY TO FINANCIAL INCENTIVES

- Journal of Applied Econometrics---2014---Guy Laroque,Bernard Salanié

SUMMARY While using financial incentives to increase fertility has become relatively common, the effects of such policies are difficult to assess. We propose an identification strategy that relies on the fact that the variation in wages induces variation in benefits and tax credits among 'comparable' households. We implement our approach by estimating a discrete-choice model of female participation and fertility using individual data from the French Labor Force Survey and a detailed representation of the French tax–benefit system. Our results suggest that financial incentives have had a significant effect on fertility decisions in France. As an example, we simulate the effects of an additional, unconditional child credit of 150 euros per month. The effects are strongest for the third child. Copyright © 2013 John Wiley & Sons, Ltd.

ENJOYING THE QUIET LIFE UNDER DEREGULATION? NOT QUITE

- Journal of Applied Econometrics---2014---Diego Restrepo-Tobón,Subal Kumbhakar,Diego A. Restrepo-Tobon

2014

MODEL PRIORS REVISITED: INTERACTION TERMS IN BMA GROWTH APPLICATIONS

- Journal of Applied Econometrics---2014---Mathias Moser,Paul Hofmarcher

SUMMARY This paper provides a sensitivity analysis on the prior choice for interaction terms for the results of Masanjala and Papageorgiou (Rough and lonely road to prosperity. Journal of Applied Econometrics 2008; 23 : 671–682), which has been criticized for its implementation of interaction terms by Crespo Cuaresma (How different is Africa? Journal of Applied Econometrics 2011; 26 : 1041–1047). We find that the discussed priors have similar predictive power and we also evaluate alternative prior solutions that account for the special nature of interaction terms. Copyright © 2013 John Wiley & Sons, Ltd.

crs: A PACKAGE FOR NONPARAMETRIC SPLINE ESTIMATION IN R

- Journal of Applied Econometrics---2014---Anson Ho,Kim Huynh,David T. Jacho-ChÁvez,David Tomás Jacho-Chávez

2014

AN EMPIRICAL GROWTH MODEL FOR MAJOR OIL EXPORTERS

- Journal of Applied Econometrics---2014---Hadi Esfahani,Kamiar Mohaddes,M Pesaran

SUMMARY This paper develops a long-run output relation for a major oil-exporting economy where the oil income-to-output ratio remains sufficiently high over a prolonged period. It extends the stochastic growth model developed in Binder and Pesaran (1999)

by including oil exports as an additional factor in the capital accumulation process. The paper distinguishes between the two cases where the growth of oil income, g-super-o, is less than the natural growth rate (the sum of the population growth, n, and the growth of technical progress, g), and when g-super-o $\geqslant$ g + n. Under the former, the effects of oil income on the economy's steady growth rate will vanish eventually, while under the latter oil income enters the long-run output equation with a coefficient which is equal to the share of capital if it is further assumed that the underlying production technology can be represented by a Cobb–Douglas production function. The long-run theory is tested using quarterly data on nine major oil economies. Overall, the test results support the long-run theory, with the existence of long-run relations between real output, foreign output and real oil income established for six of the nine economies considered. Copyright © 2012 John Wiley & Sons, Ltd.

EXCHANGE RATE FUNDAMENTALS, FORECASTING, AND SPECULATION: BAYESIAN MODELS IN BLACK MARKETS

- Journal of Applied Econometrics---2014---Robert Gramacy,Samuel Malone,Enrique Ter Horst

SUMMARY Although speculative activity is central to black markets for currency, the out-of-sample performance of structural models in those settings is unknown. We substantially update the literature on empirical determinants of black market rates and evaluate the out-of-sample performance of linear models and non-parametric Bayesian treed Gaussian process (BTGP) models against the random walk benchmark. Fundamentals-based models outperform the benchmark in out-of-sample prediction accuracy and trading rule profitability measures given future values of fundamentals. In simulated real-time trading exercises, however, the BTGP achieves superior realized profitability, accuracy and market timing, while linear models do no better than a random walk. Copyright © 2013 John Wiley & Sons, Ltd.

INFORMATION IN THE YIELD CURVE: A MACRO-FINANCE APPROACH

- Journal of Applied Econometrics---2014---Hans Dewachter,Leonardo Iania,Marco Lyrio

SUMMARY We use a macro-finance model, incorporating macroeconomic and financial factors, to study the term premium in the US bond market. Estimating the model using Bayesian techniques, we find that a single factor explains most of the variation in bond risk premiums. Furthermore, the model-implied risk premiums account for up to 40% of the variability of one- and two-year excess returns. Using the model to decompose yield spreads into an expectations and a term premium component, we find that, although this decomposition does not seem important to forecast economic activity, it is crucial to forecast inflation for most forecasting horizons. Copyright © 2012 John Wiley & Sons, Ltd.

SMOOTH DYNAMIC FACTOR ANALYSIS WITH APPLICATION TO THE US TERM STRUCTURE OF INTEREST RATES

- Journal of Applied Econometrics---2014---Borus Jungbacker,Siem Jan Koopman,Michel Wel

SUMMARY We consider the dynamic factor model and show how smoothness restrictions can be imposed on factor loadings by using cubic spline functions. We develop statistical procedures based on Wald, Lagrange multiplier and likelihood ratio tests for this purpose. The methodology is illustrated by analyzing a newly updated monthly time series panel of US term structure of interest rates. Dynamic factor models with and without smooth loadings are compared with dynamic models based on Nelson–Siegel and cubic spline yield curves. We conclude that smoothness restrictions on factor loadings are supported by the interest rate data and can lead to more accurate forecasts. Copyright © 2013 John Wiley & Sons, Ltd.

DO PEERS AFFECT STUDENT ACHIEVEMENT? EVIDENCE FROM CANADA USING GROUP SIZE VARIATION

- Journal of Applied Econometrics---2014---Vincent Boucher,Yann Bramoullé,Habiba Djebbari,Bernard Fortin

SUMMARY We provide the first empirical application of a new approach proposed by Lee (Journal of Econometrics 2007; 140 (2), 333–374) to estimate peer effects in a linear-in-means model when individuals interact in groups. Assumingsufficient group size variation, this approach allows to control for correlated effects at the group level and to solve the simultaneity (reflection) problem. We clarify the intuition behind identification of peer effects in the model. We investigate peer effects in student achievement in French, Science, Mathematics and History in secondary schools in the Province of Québec (Canada). We estimate the model using conditional maximum likelihood and instrumental variables methods. We find some evidence of peer effects. The endogenous peer effect is large and significant in Mathematics but imprecisely estimated in the other subjects. Some contextual peer effects are also significant. In particular, for most subjects, the average age of peers has a negative effect on own test score. Using calibrated Monte Carlo simulations, we find that high dispersion in group sizes helps with potential issues of weak identification.

FIRM HETEROGENEITY, PERSISTENT AND TRANSIENT TECHNICAL INEFFICIENCY: A GENERALIZED TRUE RANDOM-EFFECTS model

- Journal of Applied Econometrics---2014---Mike Tsionas,Subal Kumbhakar

SUMMARY This paper considers a panel data stochastic frontier model that disentangles unobserved firm effects (firm heterogeneity) from persistent (time-invariant/long-term) and transient (time-varying/short-term) technical inefficiency. The model gives us a four-way error component model, viz., persistent and time-varying inefficiency, random firm effects and noise. We use Bayesian methods of inference to provide robust and efficient methods of estimating inefficiency components in this four-way error component model. Monte Carlo results are provided to validate its performance. We also present results from an empirical application that uses a large panel of US commercial banks.

MAXIMUM LIKELIHOOD ESTIMATION OF FACTOR MODELS ON DATASETS WITH ARBITRARY PATTERN OF MISSING DATA

- Journal of Applied Econometrics---2014---Marta Banbura,Michele Modugno

SUMMARY In this paper we modify the expectation maximization algorithm in order to estimate the parameters of the dynamic factor model on a dataset with an arbitrary pattern of missing data. We also extend the model to the case with a serially correlated idiosyncratic component. The framework allows us to handle efficiently and in an automatic manner sets of indicators characterized by different publication delays, frequencies and sample lengths. This can be relevant, for example, for young economies for which many indicators have been compiled only recently. We evaluate the methodology in a Monte Carlo experiment and we apply it to nowcasting of the euro area gross domestic product.

NUMERICAL DISTRIBUTION FUNCTIONS OF FRACTIONAL UNIT ROOT AND COINTEGRATION TESTS

- Journal of Applied Econometrics---2014---James MacKinnon,Morten Nielsen

SUMMARY We calculate, by simulations, numerical asymptotic distribution functions of likelihood ratio tests for fractional unit roots and cointegration rank. Because these distributions depend on a real-valued parameter b which must be estimated, simple tabulation is not feasible. Partly owing to the presence of this parameter, the choice of model specification for the response surface regressions used to obtain the numerical distribution functions is more involved than

is usually the case. We deal with model uncertainty by model averaging rather than by model selection. We make available a computer program which, given the dimension of the problem, q, and a value of b, provides either a set of critical values or the asymptotic P-value for any value of the likelihood ratio statistic. Copyright © 2012 John Wiley & Sons, Ltd.

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Journal of Applied Econometrics distinguished authors

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Default estimation, correlated defaults, and expert information

- Journal of Applied Econometrics---2011---Nicholas Kiefer

Capital allocation decisions are made on the basis of an assessment of creditworthiness. Default is a rare event for most segments of a bank's portfolio and data information can be minimal. Inference about default rates is essential for efficient capital allocation, for risk management and for compliance with the requirements of the Basel II rules on capital standards for banks. Expert information is crucial in inference about defaults. A Bayesian approach is proposed and illustrated using prior distributions assessed from industry experts. A maximum entropy approach is used to represent expert information. The binomial model, most common in applications, is extended to allow correlated defaults yet remain consistent with Basel II. The application shows that probabilistic information can be elicited from experts and econometric methods can be useful even when data information is sparse. Copyright (C) 2009 John Wiley & Sons, Ltd.

Assessing and valuing the nonlinear structure of hedge fund returns

- Journal of Applied Econometrics---2011---Antonio Diez de los Rios,René Garcia

Several studies have put forward that hedge fund returns exhibit a nonlinear relationship with equity market returns, captured either through constructed portfolios of traded options or piece-wise linear regressions. This paper provides a statistical methodology to unveil such nonlinear features with respect to returns on benchmark risk portfolios. We estimate a portfolio of options that best approximates the returns of a given hedge fund, account for this search in the statistical testing of the nonlinearity, and provide a reliable test for a positive valuation of the fund. We find that not all fund categories exhibit significant nonlinearities, and that only a few strategies provide significant value to investors. Our methodology helps identify individual funds that provide value in an otherwise poorly performing category. Copyright (C) 2010 John Wiley & Sons, Ltd.

Measuring the diffusion of housing prices across space and over time

- Journal of Applied Econometrics---2011---Ryan Brady

How fast and how long (and to what magnitude) does a change in housing prices in one region affect its neighbors? In this paper, I apply a time series technique for measuring impulse response functions from local projections to a spatial autoregressive model of housing prices. For a dynamic panel of California counties, the data reveal that the diffusion of regional housing prices across space lasts up to two and half years. This result, and the econometric techniques employed, should be of interest not only to housing and regional economists, but to a variety of applied econometricians as well.

The response of prices, sales, and output to temporary changes in demand

- Journal of Applied Econometrics---2011---Adam Copeland,George Hall

We determine empirically how automakers accommodate shocks to demand. Using data on production, sales, and transaction prices, we estimate a dynamic profit maximization model of the firm. We demonstrate that when an automaker is hit with a vehicle-specific demand shock, sales respond immediately and prices respond very modestly. Further, when accounting for non-convexities in the cost function, production responds with a delay. Over time, shocks are absorbed almost entirely through adjustments in sales and production rather than prices. We examine two recent demand shocks: the Ford Explorer/Firestone tire recall of 2000, and the 11 September 2001 terrorist attacks.

Stochastic error specification in primal and dual production systems

- Journal of Applied Econometrics---2011---Subal Kumbhakar,Mike Tsionas

In this paper we derive both primal and dual-cost systems in which the stochastic specifications arise from the model (random environment or measurement errors and optimization errors)—not tacked on at the end after the deterministic system is worked out. Derivation of the error structures is based on cost-minimizing behavior on the firms. The primal systems constitute the production function and the first-order conditions of cost minimization. We consider two dual-cost systems. The first dual system is based on the cost function and cost share equations. The second dual system is based on a multiplicative general error production model that is an alternative to McElroy's additive general error production model. Our multiplicative general error model gives a clear and intuitive economic meaning to the error components. The resulting cost system is easy to estimate compared to the alternative cost systems. The error components in the multiplicative general error model can capture heterogeneity in the technology parameters even in a cross-sectional model. Panel data are not necessary to estimate either the primal or dual systems. The models are estimated using data on 72 fossil fuel-fired steam electric power generation plants (observed for the period 1986–1999) in the USA.

Regime shifts in stock–flow I(2)–I(1) systems: the case of US fiscal sustainability

- Journal of Applied Econometrics---2011---Vanessa Berenguer-Rico,Josep Lluís Carrion-i-Silvestre,Josep Lluís Carrion-i-Silvestre,Vanessa Berenguer-Rico

In the last two decades, fiscal sustainability has been tested through the use of non-stationary time series analysis. Two different approximations can be found in the literature: first, a univariate approach that has focused on the stochastic properties of the stock of debt and, second, a multivariate one that has focused on the long-run properties of the flows of expenditures and revenues, i.e., in the stochastic properties of the deficit. In this paper we unify these approaches considering the stock–flow system that fiscal variables configure. Our approach involves working in an I(2) stochastic processes framework. Given the possibility of the existence of regime shifts in the sustainability of US deficit that the literature has pointed out, we develop a new statistic that can be applied to test several types of I(2) cointegration and multicointegration relationships allowing for regime shifts. To test for these kinds of changing long-run relationships we propose the use of a residual-based Dickey–Fuller class of statistic that accounts for one structural break. We show that consistent estimates of the break fraction can be obtained through the minimization of the sum of squared residuals when there is I(2) cointegration. The finite sample performance of the proposed statistic is investigated by Monte Carlo simulations. The econometric methodology is applied to assess whether the US fiscal deficit and debt are sustainable.

Intertemporal consumption choices, transaction costs and limited participation in financial markets: reconciling data and theory

- Journal of Applied Econometrics---2011---Orazio Attanasio,Monica Paiella

This paper builds a unifying framework based on the theory of intertemporal consumption choices that brings together the limited participation-based explanation of the Consumption Capital Asset Pricing Model's poor empirical performance and the transaction costs-based explanation of incomplete portfolios. Using the implications of the consumption model and observed household consumption and portfolio choices, we identify the preference parameters of interest and a lower bound for the costs rationalizing non-participation in financial markets. Using the US Consumer Expenditure Survey and assuming isoelastic preferences, we estimate the coefficient of relative risk aversion at 1.7 and a cost bound of 0.4% of non-durable consumption. Our estimate of the preference parameter is theoretically plausible and the bound sufficiently small to be likely to be exceeded by the actual total (observable and unobservable) costs of participating in financial markets.

npRmpi: A package for parallel distributed kernel estimation in R

- Journal of Applied Econometrics---2011---Anson Ho,Kim Huynh,David T. Jacho-Chávez,David Tomás Jacho-Chávez

2011

Hierarchical Markov normal mixture models with applications to financial asset returns

- Journal of Applied Econometrics---2011---John Geweke,Gianni Amisano

Motivated by the common problem of constructing predictive distributions for daily asset returns over horizons of one to several trading days, this article introduces a new model for time series. This model is a generalization of the Markov normal mixture model in which the mixture components are themselves normal mixtures, and it is a specific case of an artificial neural network model with two hidden layers. The article uses the model to construct predictive distributions of daily S&P 500 returns 1971–2005 and one-year maturity bond returns 1987–2007. For these time series the model compares favorably with ARCH and stochastic volatility models. The article concludes by using the model to form predictive distributions of one- to ten-day returns during volatile episodes for the S&P 500 and bond return series.

Default priors and predictive performance in Bayesian model averaging, with application to growth determinants

- Journal of Applied Econometrics---2011---Theo Eicher,Chris Papageorgiou,Adrian E. Raftery

2011

A new poolability test for cointegrated panels

- Journal of Applied Econometrics---2011---Joakim Westerlund,Wolfgang Hess

This paper proposes a new test of the null hypothesis that the parameters in a cointegrated panel data regression are equal across the cross-section. The asymptotic distribution of the new test statistic is derived and simulation results are provided to suggest that it performs very well in small samples. An empirical application to the monetary exchange rate model is also provided.

Dynamics of worker flows and vacancies: evidence from the sign restriction approach

- Journal of Applied Econometrics---2011---Shigeru Fujita

This paper establishes robust dynamic features of the worker reallocation process in the US labor market. I use structural VARs with sign restrictions, which take the form of restricting the short-run negative relationship between vacancies and unemployment (i.e., Beveridge curve). Despite the 'weakness' of these restrictions, they reveal a clear, unambiguous pattern that, when unemployment increases and vacancies drop, (i) both the separation rate and gross separations rise quickly and remain persistently high, (ii) the job finding rate and vacancies drop in a hump-shaped manner, and (iii) gross hires respond little initially, but eventually rise. These results point to the importance of job loss in understanding US labor market dynamics. This pattern also holds with respect to different kinds of shocks that induce the same Beveridge curve relationship. This paper also considers the 'disaggregate model', which uses data disaggregated into six demographic groups and incorporates transitions into and out of the labor force. I show that the separation rate continues to play a dominant role among prime-age male workers, while, for other groups, changes in the job finding rate are more important. Copyright (C) 2009 John Wiley & Sons, Ltd.

An empirical model of mainframe computer investment

- Journal of Applied Econometrics---2011---Sung-Jin Cho

This paper introduces a dynamic model of investment decisions in mainframe computer systems. I estimate and test the model using detailed micro data from a company in the telecommunications industry. The model accounts for 'technological depreciation' which distinguishes computers from other investment goods where physical depreciation is typically a key factor underlying replacement investment decisions. The company increased its installed mainframe computer capacity by over 30-fold over the 10-year sample period. Part of this growth was undoubtedly due to the huge increase in performance and the corresponding drop in the per unit cost of processing capacity of mainframes, a consequence of 'Moore's law'. However, there was also tremendous growth in the need for computers for billing, account processing and other tasks, due to the rapid growth in the telecommunications industry over this same time period. I estimate the unknown parameters of the investment model using a nonlinear least squares–nested fixed-point algorithm (NLS-NFXP), which solves the Bellman equation underlying the dynamic model of investment and replacement of mainframe computers by nonlinear least squares. I demonstrate that it is feasible to estimate this model on an ordinary PC, whereas standard discretization approaches to solving the firm's optimal investment policy might not even be feasible using supercomputers. I show that the estimated model fits the data very well, and accurately captures the large growth in installed mainframe capacity, the timing and magnitude of replacement investment, as well as periodic upgrades of existing mainframe units. I use the model to decompose how much of the 30-fold increase in mainframe computer capacity is due to 'Moore's law' (i.e. the huge drop in the unit cost of installed mainframe capacity), and how much is due to the growth in demand for services of mainframes, due to the rapid growth in demand for telecommunications services (particularly cell phone accounts) by the firm's customers. Copyright (C) 2010 John Wiley & Sons, Ltd.

Estimating intergenerational schooling mobility on censored samples: consequences and remedies

- Journal of Applied Econometrics---2011---Monique De Haan,Erik Plug

In this paper we estimate the impact of parental schooling on child schooling, focus on the problem that children who are still in school constitute censored observations, and evaluate three solutions to it: replacement of observed with expected years of schooling, maximum likelihood approach, and elimination of all school-aged children. Using intergenerational data from the Wisconsin Longitudinal Study we test how the three correction methods deal with censored observations. The one that treats parental expectations as if they were realizations seems to fix the censoring problem quite well.

Mixed logit models: accuracy and software choice

- Journal of Applied Econometrics---2011---Jae Bong Chang,Jayson Lusk

2011