

Excessive Optimism: A Precursor for Inaccurate Economic Policy

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Introduction

Effective monetary policy requires the use of accurate forecasting. However, statistical evidence seems to demonstrate that these two phenomenon are related in more than just one causal manner (Pigou 1927). Inaccurate forecasting, even if used to increase consumer confidence, seems to create catastrophic long-term results. By analyzing once-booming economies which experienced such catastrophes based on data provided by the IMF, we reach a conclusion that verifies just that; disproportionate, positive economic expectations are a precursor to economic collapse.

```
c1 <- readxl::read_excel("./data/tableC1_bw.xlsx", "data")
```

```
## New names:
## * ' ' -> ...1
## * ' ' -> ...2
## * ' ' -> ...3
## * ' ' -> ...4
## * ' ' -> ...5
## * ...
```

```
c1
```

```
## # A tibble: 6,996 x 35
##   ...1    ...2    ...3    ...4    ...5    ...6    ...7    ...8 '1990' '1991' '1992' '1993'
##   <chr>   <chr> <chr> <chr> <chr> <chr> <chr> <lgl> <chr> <chr> <chr> <chr>
## 1 ifscore time  rgdp~ dumm~ post~ make~ make~ NA    d_rec~ d_rec~ d_rec~ d_rec~
## 2 111     1980 -1.3~ 1      0      0      0      NA    0      0      0      0
## 3 111     1981 1.57~ 0      0      0      0      NA    0      0      0      0
## 4 111     1982 -2.8~ 1      0      0      0      NA    0      0      0      0
## 5 111     1983 3.68~ 0      0      0      0      NA    0      0      0      0
## 6 111     1984 6.32~ 0      0      0      0      NA    0      0      0      0
## 7 111     1985 3.31~ 0      0      0      0      NA    0      0      0      0
## 8 111     1986 2.57~ 0      0      0      0      NA    0      0      0      0
## 9 111     1987 2.54~ 0      0      0      0      NA    0      0      0      0
## 10 111    1988 3.26~ 0      0      0      0      NA    0      0      0      0
## # ... with 6,986 more rows, and 23 more variables: 1994 <chr>, 1995 <chr>,
## #   1996 <chr>, 1997 <chr>, 1998 <chr>, 1999 <chr>, 2000 <chr>, 2001 <chr>,
## #   2002 <chr>, 2003 <chr>, 2004 <chr>, 2005 <chr>, 2006 <chr>, 2007 <chr>,
## #   2008 <chr>, 2009 <chr>, 2010 <chr>, 2011 <chr>, 2012 <chr>, 2013 <chr>,
## #   2014 <chr>, 2015 <chr>, 2016 <chr>
```

What the data shows

The IMF produces bi-annual economic reports for all member countries (IMF 1990–2018) which is inclusive of data from similar research bodies. What makes this source of data unique is that it covers 189 states, making it possible to create cumulative reports based on the global economy and establish trends backed by an enormous amount of data.

Errors when using energy prices as a benchmark

Citations

Beaudry, Paul, and Franck Portier. 2004. “An Exploration into Pigou’s Theory of Cycles.” *Journal of Monetary Economics* 51 (6): 1183–1216.