

## **Replication material for “On the macroeconomic consequences of over-optimism”**

**By Paul Beaudry and Tim Willems**

To replicate the results of our paper, run “tables\_bw.do” on the associated dataset (“data\_bw.dta”) in Stata. This will automatically generate all figures and tables presented in the paper (including the appendix). The code uses the Stata-package “xtivreg2”, which needs to be pre-installed (done by line 10 of the code).

The origin of the data series is documented in the paper. These (relatively standard) series are combined with information on IMF Mission Chief assignments (constructed as detailed in the paper). Mission Chiefs are all given a unique ID by which they are identified (and upon which the associated dummy series is based). The classification of advanced/emerging/developing countries follows the IMF’s grouping.

IMF forecasts are taken from the IMF’s World Economic Outlook database (always the October vintage), which is openly accessible via <https://www.imf.org/en/Publications/SPROLLs/world-economic-outlook-databases>. Growth rates (as well as associated forecasts) are calculated from the variable named “gross domestic product, constant prices” (NGDP\_R).

The timing of the forecast error variables (like “yr3\_fe”) is such that the entry for year T corresponds to the forecast made in year (T-3) regarding growth for years (T-2, T-1, T). Given this timing convention, the code instruments the forecast made in year (T-3) with the MC fixed effect “ $\mu$ ” associated with year (T-3), since that is the fixed effect associated with the Mission Chief overseeing that country when the forecast was made. The oil-price based instrument “z” is constructed as detailed in the paper. The timing convention follows that for the Mission Chief instrument, such that the entry for year (T-3) concerns the oil-price forecasts for years (T-2, T-1, T).

The control variables “tp\_growth\_3yavg” and “ttt\_growth\_3yavg” (capturing trading partner and terms-of-trade growth) are defined such that the entry for year T averages growth over the years (T-3, T-2, T-1).