The 1st Winter Workshop in Recent Advances in Macroeconomics

January 20-21, 2022

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About

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The Institute of Social and Economic Research (ISER) and the Osaka School of International Public Policy (OSIPP), Osaka University, the Department of Economics, Korea University, and the Department of Economics, University of Surrey are virtually organizing a workshop in macroeconomics on January 20th and 21st, 2022. The aim of the workshop is to bring together (junior) economists across East Asia and North America with a strong interest in Macroeconomics, and to generate a friendly environment with intensive interaction, not only during the presentations but also informally before and after. A limited number of papers will be presented (10 over two days) to allow maximum time for discussion.

Organizing committee

Tamon Asonuma	International Monetary Fund (IMF)
Yunjong Eo	Department of Economics, Korea University
Hiro Ishise	Osaka School of International Public Policy (OSIPP), Osaka University
Hyungseok Joo	School of Economics, University of Surrey
Donghoon Yoo	Institute of Social and Economic Research (ISER), Osaka University

Timetable

S1–S6: Invited Sessions, J1–J4: Young Economist Sessions.

Thursday, 20 of January, 2022

8:25–8:30	**Welcome remarks**		
8:30–9:30	S1	**Huixin Bi** Federal Reserve Bank of Kansas City	Public Pension Reforms and Retirement Decision: Narrative Evidence and Aggregate Implications
9:30–9:40	**Break**		
9:40–10:40	S2	**Konstantin Kucheryavyy** University of Tokyo	Welfare Gains from International Risk Sharing and (Non-)Specialization
10:40–10:50	**Break**		
10:50–11:20	J1	**Sun Ho Lee** Korea University	Term Premiums and Regime-Switching Prices of Macro Risks
10:50–11:20	J2	**Xiaohan Wang** Shanghai University of Finance and Economics	Renegotiation After Sovereign Default: Bygones No Longer
11:20–12:00	**Coffee break**		
12:00–13:00	S3	**Hiro Ishise** Osaka School of International Public Policy	Nominal Exchange Rate Variability, Industry-level Nominal Wage Rigidity, and the Pattern of Trade
13:00–14:00	**Discussion**		

Friday, 21 of January, 2022

8:30–9:30	S4	**Pierre De Leo** University of Maryland	Imperfect Exchange Rate Expectations
9:30–9:40	**Break**		
9:40–10:40	S5	**Zhesheng Qiu** City University of Hong Kong	Naïve Consumers in Business Cycles
10:40–10:50	**Break**		
10:50–11:20	J3	**Shuang Feng** Shandong University of Finance and Economics	Sovereign Debt: A Quantitative Comparative Investigation of the Partial Default Mechanism
10:50–11:20	J4	**Yeil Lee** Seoul National University	Changing Effects of Monetary Policy in Korea and ASEAN countries
11:20–12:00	**Coffee break**		
12:00–13:00	S6	**Akira Sasahara** Keio University	Trade costs of sovereign debt restructurings: Does a market friendly approach improve the outcome?
13:00–14:00	**Discussion**		

List of Abstracts

Thursday, 20 of January, 2022

Public Pension Reforms and Retirement Decision: Narrative Evidence and Aggregate Implications

Huixin Bi[1], ***Sarah Zubairy***[2]

S1

[1] Research Department, The Federal Reserve Bank of Kansas City
[2] Department of Economics, Texas A&M University

We construct a database of public pension policy changes with motivation and implementation information for ten OECD countries. Structural pension reforms, motivated by long-run sustainability concerns, often come with prolonged phase-in periods. In response to pension retrenchments implemented immediately, people close to retirement stay in the work force longer. News about future pension retrenchments with implementation lags, however, is likely to lead this group to exit the labor market. This decline in the labor force participation rate is particularly strong for reforms with long lags, ones that introduce fundamental policy changes, and where citizens have lower trust in the government.

Welfare Gains from International Risk Sharing and (Non-)Specialization

Konstantin Kucheryavyy

S2

Graduate School of Public Policy, University of Tokyo

The overwhelming consensus is that access to international risk sharing increases specialization in comparative advantage industries, which has lead to speculation that international risk sharing could bring sizeable welfare gains to countries through this endogenous production channel. I challenge this view in two ways. First, I use an extension of the standard 2x2 Ricardian model with productivity shocks and financial markets and show the effect of international risk sharing on specialization is ambiguous and depends on the structure of the variance-covariance matrix of productivity shocks across countries and industries. In particular, if productivity shocks are correlated within but not across countries, then international risk sharing can actually lead to a decrease in specialization through terms-of-trade effects. Second, I quantitatively assess the magnitude of this endogenous production channel on welfare by extending the model to a continuum of goods and I argue that welfare gains are small relative to the gains from consumption smoothing regardless of changes in specialization.

Changing Effects of Monetary Policy in Korea and ASEAN countries

Sunho Lee[1]***, Kyu Ho Kang***[1]

J1

[1] Department of Economics, Korea University

We examine regime changes in the role of possibly unspanned macro factors in a dynamic term structure model of interest rates. To do this, we consider the unspanned macro-risks model of Joslin, Priebsch, and Singleton (2014) with the arbitrage-free Nelson-Siegel restriction. Then, we incorporate a Markov process into the model, so that the effect of the macro factors on the term premia is allowed to evolve over time. Under this framework, we classify two macro factors (real activity and inflation) into three categories: (i) ones with unspanned macro risk, (ii) ones without unspanned macro-risk, or (iii) ones with regime-switching unspanned macro risk. Given the three categories for the two variables, there are a total of 32 combinations. The models with different combinations are estimated and compared using a Bayesian approach. Based on the US monthly data from 1990 to 2007, the model with one regime-switching unspanned macro risk is most supported by the data. Specifically, the real activity is found to include unspanned information during recessions. Our finding implies that the spanning hypothesis seems to hold during non-recession periods.

Renegotiation After Sovereign Default: Bygones No Longer

Xiaohan Wang

J2

School of Finance, Shanghai University of Finance and Economics

In the aftermath of a sovereign default, debt recovery is determined through a restructuring process. This recovery is important for both the country and the creditors. For the country, debt recovery determines its debt burden after exiting default and impacts macroeconomic performance. For the creditors, recovery reduces their losses. Using the dataset of Cruces and Trebesch (2013), I show that the level of recovery is positively related with the level of defaulted debt. In light of this finding, I build a framework that rationalizes this strong association by employing the Kalai-Smorodinsky bargaining solution as a model of sovereign debt renegotiation, while jointly matching standard emerging markets' behavior. I identify the key assumptions that enable the model to match the data. I also show that the standard model using Nash bargaining protocol results in debt recovery being unrelated to the outstanding level of debt. A debt relief program is then studied to highlight the difference between the two models in welfare implications.

Nominal Exchange Rate Variability, Industry-level Nominal Wage Rigidity, and the Pattern of Trade

Hiro Ishise

S3

Osaka School of International Public Policy, Osaka University

Does the stabilization of the nominal exchange rate stimulate international trade? This paper theoretically and empirically revisits this old but unresolved question by considering the differential impacts across sectors, particularly focusing on the interactive role with industry-level nominal wage rigidity. A stylized model clarifies mechanisms; trade may increase or decrease after a change in the nominal exchange rate. I then show that nominal exchange rate variability reduces trade in the long run if a sector faces wage rigidity. A testable implication is that a country whose nominal exchange rate varies less has a comparative advantage in industries that intensively use sticky-wage workers. World trade data supports this comparative-advantage-type prediction.

Friday, 21 of January, 2022

Imperfect Exchange Rate Expectations

Giacomo Candian[1], ***Pierre De Leo***[2]

S4

[1]Department of Applied Economics, HEC Montréal
[2] Department of Economics, University of Maryland

Using survey data, we document that predictable exchange rate forecast errors are responsible for the uncovered-interest-parity (UIP) puzzle and its reversal at longer horizons. We develop a general-equilibrium model based on shock misperception and over-extrapolative beliefs that reconciles these and other major exchange rate puzzles. These beliefs distortions generate both under- and overreaction of expectations that account for the predictability of forecast errors about interest rates, exchange rates, and other macroeconomic indicators. In the model, forecast errors are endogenous to monetary policy and explain the change in the behavior of UIP deviations that emerged after the global financial crisis.

Naïve Consumers in Business Cycles

Zhesheng Qiu

S5

Department of Economics and Finance, City University of Hong Kong

Systematic biases in expectations have been modelled as a lack of knowledge on either the aggregate state of the economy or the true DGP. This project provides a method to identify the later from the former, without using panel data. The gist of the idea is to use the average nowcasts and forecasts to control the information sets. When applying this method to Michigan Survey of Consumers, the results indicate that consumers understand very little about the true DGP of GDP growth. We discuss what models are (not) consistent with such patterns and the corresponding implications for business cycles.

Sovereign Debt: A Quantitative Comparative Investigation of the Partial Default Mechanism

Manoj Atolia[1], *Shuang Feng*[2]

J3

[1] Department of Economics, Florida State University
[2] School of Economics, Shandong University of Finance and Economics

We quantitatively explore the implications of the partial default mechanism for the dynamics of sovereign debt and default in a small open economy. The model features endogenous partial default and preemptive recovery on the defaulted amount with direct utility cost of default, instead of the exclusion from international financial markets. The model is calibrated to Argentina and compared to the traditional full default models. We show that with our partial default framework, (1) the model with endowment not only matches the mean spread on debt and the debt-to-output ratio, like the traditional models, but also matches both the default frequency and the default rate; (2) the model with production, with investment as another margin to smooth consumption, improves the fit with data for the volatilities of consumption and spread on debt as well as the debt service-to-output ratio (without significant change in other moments), partially offsetting the weak performance of the endowment model; and (3) furthermore, the non-exclusion from international markets provides a more realistic pattern of the impulse responses of various macro variables to economic shocks, which gives a better understanding of the propagation mechanism of partial default.

Changing Effects of Monetary Policy in Korea and ASEAN countries

Joonyoung Hur[1], *Soyoung Kim*[2], *Yeil Lee*[2]

J4

[1] School of Economics, Sogang University
[2] Department of Economics, Seoul National University

In this paper, we examine the time-variation in the effectiveness of monetary policy in Korea and ASEAN countries using a time-varying coefficient vector autoregressive (TVC-VAR) model, estimated with data from 2000 Q1 to 2020 Q2/Q3. In particular, we assess how the effects of monetary policy on output have changed over time. Our results indicate that the expansionary effects of monetary policy display distinct time-varying patterns across the countries. In case of Korea and Indonesia, in the very short run, the effect of monetary policy seems to be weakened or maintained similarly, but in the medium- to long-runs, the effect has been strengthened in the 2010s. For Malaysia and the Philippines, the effectiveness of monetary policy seems to have gradually strengthened during the entire period. Lastly, the results of Thailand are associated with wide error bands, which makes it difficult to draw clear conclusions. However, there is a possibility that the effectiveness of monetary policy maintained at a similar level during the entire sample period.

Trade Collapses and Sovereign Debt Restructurings: Does a Market-Friendly Approach Improve the Outcome?

Tamon Asonuma[1], ***Marcos Chamon***[1], ***Akira Sasahara***[2]

S6

[1] International Monetary Fund
[2] Faculty of Economics, Keio University

Sovereign debt restructurings are associated with heterogenous impacts on imports and exports both across episodes and across sectors. Based on a novel sector-level dataset over 1975-2019, we newly explain two dimensions of trade heterogeneity. First, restructuring strategies account for heterogeneity across restructuring episodes. Post-default restructurings are associated with a larger decline in imports (in value and volume), while preemptive restructuring—take place preemptively without missing payments and going into default—are associated with milder decline in exports (in value and volume). Second, the exchange rate channel accounts for heterogeneity across sectors (types of goods) through both price and volume effects. Sectors producing capital goods suffer a larger decline in imports (in value and volume), but a miler increase in exports (in value and volume) than those producing consumption goods.

List of Participants (confirmed as of January 11, 2022)

JaeBin Ahn[m]	Seoul National University
Tamon Asonuma[m]	International Monetary Fund
Manoj Atolia[m]	Florida State University
Huixin Bi[p]	Federal Reserve Bank of Kansas City
Thang Dao	Institute of Social and Economic Research, Osaka University
Yunjong Eo[m]	Korea University
Shuang Feng[p]	Shandong University of Finance and Economics
Ina Hajdini[m]	Federal Reserve Bank of Cleveland
Hiro Ishise[p,m]	Osaka School of International Public Policy, Osaka University
Hyungseok Joo	University of Surrey
Mitsuru Katagiri[m]	Hosei University
Hayato Kato[m]	Osaka University
Kyunghun Kim	Hongik University
Konstantin Kucheryavyy[p]	University of Tokyo
Sun Ho Lee[p]	Korea University
Yeil Lee[p]	Seoul National University
Pierre De Leo[p]	University of Maryland
Guangyu Pei[m]	The Chinese University of Hong Kong
Zhesheng Qiu[p]	City University of Hong Kong
Akira Sasahara[p]	Keio University
Xiaohan Wang[p]	Shanghai University of Finance and Economics
Donghoon Yoo	Institute of Social and Economic Research, Osaka University

[p] : presenter; [m] moderator

Logistics

This Conference will be held on **Zoom** and **Gather.Town**.

Presentations: For regular sessions, 60 minutes will be allocated to each paper: (i) 45 minutes for paper presentation and (ii) 15 minutes for Q&A. For junior economist/doctoral students sessions: 30 minutes presentation.

Chatbox: To facilitate smooth presentation, we will set up a chat box to allow all panel participants and audience to raise questions (rather than interrupting presenters' presentation). Presenters can choose any of three options to handle questions (please indicate your preference to chairs before your presentation); (i) have co-authors take care of questions at Chat box, (ii) ask chairs to interrupt and read questions during presentation, (iii) answer questions at the Q&A session or small group meetings.

Small group meetings: During the coffee break and after the second sessions of the day, we will set up zoom meetings and Gather.Town for discussion. Presenters, discussants and participants can discuss on the paper after the session. Presenters can also answer questions to discussants in small group meeting . The meetings are aimed to have more bilateral discussion and engagement.

How to get connected?

For S1–S10; J1 and J3, use the following zoom link (with passcode: 081239):

`https://surrey-ac.zoom.us/j/96528323848?pwd=OVRMaTJzSVJiMXBQamVtRzNaancrdz09`

For J2 and J4, use the following zoom link:

`https://us02web.zoom.us/j/81852915714?pwd=TFBWNyt1SGRxTGxkbkhqMUpzRlBDZz09`

For Gather.Town, use the following link:

`https://gather.town/app/ajGSTbcpHyGrRrKj/onlineworkshopspace`

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[1]This program booklet is created using the template from: https://github.com/maximelucas/AMCOS_booklet