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AWI This Week

Monday, 18. 1. 10 Departmental Seminar

17.15-18.45 Volker Grossmann, Université de Fribourg
AWI 00.010 "Quantifying the Optimal US Growth Policy"

Wednesday, 20. 1. 10 Internal Seminar

17.15-18.45 Christian Conrad
AWI 00.010 "On the Transmission of Memory: Inflation Persistence and
the Great Moderation"

Departmental Seminar

Volker Grossmann

"Quantifying the Optimal US Growth Policy"

This paper develops a comprehensive endogenous growth framework to derive the optimal US growth policy. We allow for investment in physical capital, human capital and R&D as engines of economic growth. The analysis is novel in that we capture important elements of the US tax-transfer system and fully take into account transitional dynamics in our numerical analysis. Our analysis suggests that the current R&D subsidization in the US leads to dramatic underinvestment in R&D. We find that innovating firms should be allowed to deduct from corporate income between 2-2.5 times their R&D costs, rather than just 1.1 times under the current policy. There is also underinvestment in physical capital. Currently, firms can about fully deduct their capital costs. They should be able to deduct about 1.5-1.7 times their capital costs from corporate income. Implementing the optimal policy mix would entail huge welfare gains.

Internal Seminar

Christian Conrad

"On the Transmission of Memory: Inflation Persistence and the Great Moderation"

In this paper we derive the autocorrelation function, the impulse response function and the optimal predictor for the AR(1)-GARCH(1,1)-in-mean-level process. We show that in this model the persistence from the variance is transmitted to the mean and vice versa and, hence, by studying the conditional mean/variance independently one will tend to overestimate the true degree of persistence. Under reasonable assumptions, the AR(1)-GARCH(1,1)-in-mean-level process will be observationally equivalent to an ARMA(2,1) process with the largest autoregressive root being close to one. In particular, unit root tests for the level will not be able to reject the null hypothesis of the process being integrated of order one. We argue that the commonly observed decrease in U.S. inflation persistence and inflation uncertainty can be well explained by our model in combination with a change in monetary policy in the early 1980's.

Miscellaneous

On Wednesday, January 13, **Tushyanthan Baskaran** obtained his doctor's degree with a dissertation on *Fiscal Decentralization and Fiscal Policy: An Economic Analysis*.

On Wednesday, January 13, **Daniel Zöller** obtained his doctor's degree with a dissertation on *Die "Zinsbereinigte Gewinnsteuer (ZGS)" - Steuersystematische Entwicklung und ökonomische Analyse eines Reformvorschlags für Deutschland*.

**Editorial deadline for issue 3 / 2010 of the newsletter:
Wednesday, January 20, 2010, 12 o'clock
newsletter@awi.uni-heidelberg.de**

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please contact the address above.