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Newsletter 13/2013

ALFRED-WEBER-INSTITUT FÜR WIRTSCHAFTSWISSENSCHAFTEN
BERGHEIMER STR. 58, 69115 HEIDELBERG, TEL. 06221/54-2941, FAX: 06221/54-3592
REDAKTION: FREYA SCHADT, EMAIL: NEWSLETTER@AWI.UNI-HEIDELBERG.DE

AWI This Week

Monday, 3.6.13	**Departmental Seminar**
17.15-18.45	Robinson Kruse, University of Hannover
AWI 00.010	"Heterogeneous expectations in US stock markets: a comprehensive study of macroeconomic determinants"
Tuesday, 4.6.13	**Economics & Politics Seminar**
14.15-15.45	Steffen Henzel, Ifo Institute
AWI 02.036	"Macroeconomic uncertainty: A common factor analysis"
Wednesday, 5.6.13	**Departmental Workshop**
17.15-18.45	Jörg Rieger, University of Heidelberg
AWI 00.010	"Financial Transaction Tax and Financial Market Stability with Diverse Beliefs"

Jour Fix

The AWI JOUR FIXE takes place at the Lounge on a weekly basis on Mondays from 16:30 till 17:15 (i.e., just before the departmental seminar). There you will have the opportunity to meet the speaker, enjoy a coffee, and exchange news and discuss research with other members of the AWI.

Abstract

Departmental Seminar

Robinson Kruse

"Heterogeneous expectations in US stock markets: a comprehensive study of macroeconomic determinants"*

Our study takes a heterogenous asset pricing model with chartist and fundamentalist traders as point of departure. The related and well-established literature assumes that agents select their trading strategy according to past realized profits or the distance between the actual stock price and its fundamental value. Alternatively, we focus on the possibility that agents form their expectations by considering current and future macroeconomic conditions. First, based on the model we argue that the persistence in valuation ratios (like the price-dividend ratio) is directly related to market sentiment: Low persistence implies the dominance of fundamentalists in the market, while unit root or explosive behaviour implies the dominance of chartists. We first estimate the unobserved persistence by indirect inference methods in a flexible rolling window setup. This approach ensures that time-variation of the persistence is well captured and that the bias of the OLS estimator is corrected. In a second step, we study the explanatory power of macroeconomic variables for the persistence in a regression framework. Our data set consists of more than hundred variables. In addition to current macroeconomic information, we also consider the Survey of Professional Forecasters (SPF) to account for economic outlook. In order to select the most relevant variables we apply frequentist model averaging techniques. Our results shed light on the question which macroeconomic variables influence the expectations of traders. In general, we find that favorable economic conditions lead to an increase of chartists which causes prices to decouple from its fundamental value. Related to the first step of our analysis, we provide a comprehensive Monte Carlo comparison of different finite-sample bias-correction methods for autoregressive processes in a companion paper. We consider classic situations where the process is either stationary or exhibits a unit root. Importantly, the case of mildly explosive behaviour is studied as well. We compare the empirical performance of an indirect inference estimator, a jackknife approach, an approximately median-unbiased estimator and bootstrap-aided estimator. Our findings suggest that the indirect inference approach offers a valuable alternative to other existing techniques. Its performance (measured by its bias and root mean squared error) is balanced and highly competitive across many different settings.

*with Hendrik Kaufmann

Economics & Politics Seminar

Steffen Henzel

"Macroeconomic uncertainty: A common factor analysis"

In the current literature uncertainty about the future course of the economy is identified as a driver of business cycle fluctuations. Empirically, uncertainty surrounds the movements of literally hundreds of economic variables, and many different types of uncertainty are considered in the literature. We identify the fundamental types of uncertainty in the macroeconomy. To this end, we construct a large dataset covering all forms of macroeconomic uncertainty and unravel the fundamental factors that account for the common dynamics therein. We provide evidence that macroeconomic uncertainty is governed by two fundamental uncertainty factors. Our results show that the first factor captures business cycle uncertainty. The second factor reflects oil and commodity price uncertainty. Finally, we demonstrate that both uncertainty factors account for business cycle movements. While an increase in each uncertainty factor uniformly causes a drop in real activity, the nominal side of the economy is affected differently.

Departmental Workshop

Jörg Rieger

"Financial Transaction Tax and Financial Market Stability with Diverse Beliefs"

This paper studies the impact of a financial transactions tax on the trading volume and asset price volatility in a model with heterogeneous beliefs. To model heterogeneous beliefs we follow Kurz (1994, 1997) and restrict the class of beliefs to the subset of rational beliefs. Because of the differences in beliefs the model has excessive price volatility and trading volume. We study transaction taxes on the stock and the bond market. Simulation Results indicate that a transaction tax can reduce the trading volume but not the price volatility on financial markets. We also study the welfare effects of a financial transaction tax and the simulated model shows that the introduction of a financial transaction tax is associated with a small decrease in welfare.

Talks and Research Visits

Switgard Feuerstein presented her paper "From the Zollverein to the Economics of Regionalism" at the Annual Meeting of the "Ausschuss für Außenwirtschaftstheorie und Außenwirtschaftspolitik" of the "Verein für Socialpolitk", Münster, May 11-14.

Editorial deadline for issue 14/2013 of the newsletter:
Wednesday, June 5, 2013, 12 o'clock
newsletter@awi.uni-heidelberg.de

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please contact the address above.