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# INTRODUCTION TO CURRENT ISSUES IN APPLIED MACROECONOMICS

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In this introduction, we describe the organization of some of the best papers from the 3rd Henan University/INFER Workshop on Applied Macroeconomics into this special issue of **Macroeconomic Dynamics** on Current Issues in Applied Macroeconomics. The first six papers address current issues in the areas of monetary economics and financial markets. The next six of papers address current issues of economic performance and growth.

From its beginning, economics has been about macroeconomics and economic growth. That is from the start economics has been how to make people's lives better on economy wide basis. The 2008 financial panic marking the end of the great moderation has renewed this imperative and underlined the importance of applied work in macroeconomics. Brexit and other current trade uncertainties continue this imperative.

This issue of **Macroeconomic Dynamics** that collects some of the best papers submitted to the 3rd HenU/INFER Workshop on Applied Macroeconomics, in part answers this imperative. This issue contributes 12 important, topical, and cutting edge papers on current issues in applied macroeconomics to the literature on macroeconomics and economic growth. The first six papers address current issues in the areas of monetary economics and financial markets, mostly tackling issues raised by the great financial crisis. Topics include monetary policy in difficult times (especially at the zero lower bound), the causes and predictability of financial crises and macroeconomic models that go beyond the financial frictions prevalent in the literature. The next six of papers address current issues of economic performance and growth. Many of the authors were almost prophetic in their choice of topic, working on issues that even increased in relevance since the papers were written. With issues including trade dynamics and IPR protection, some of the papers presented in this issue focus on issues that now

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receive global attention mostly due to the trade tensions between the two largest economies. Others focus on issues relevant in the largest developing countries—the BRIC—which now more than ever, seem to play a crucial role in global development.

This issue of begins with Makram El-Shagi asking the question "When Does Monetary Measurement Matter (Most)?" He finds that while the direction of change in Divisia and simple sum monetary aggregates is often the same, the (mis)use of simple sum monetary aggregation cause the dynamics to differ sharply. That is in the highly volatile times, when monetary policy is particularly important, the measurement problems that simple sum aggregates are prone to matter most.

The second paper in the issue examines how central banks react to approaching the zero lower bound. In "Monetary Policy When the Zero Lower Bound Is Within Reach: A Smooth Transition Regression Approach," Andreas Steiner finds that for industrialized countries, except the US, when the policy interest rate falls below a threshold, central bank reaction coefficients decrease.

In "Alternative Monetary Policies under Keynesian Animal Spirits," Tai-kuang Ho, Ya-chi Lin and Kuo-chun Yeh make the case that arguments for price-level rather than inflation targeting need not to be based on overly restrictive assumptions. These authors find that price-level targeting prevails over inflation targeting under several different types of expectation formation, even if the announced inflation target is not fully credible.

In the fourth paper in this issue, "Optimizing Policymaker's Loss Functions in Crisis Prediction: Before, Within or After," Peter Sarlin and Gregor von Schweinitz propose two alternatives for threshold setting. The first is including policy-maker preferences in the estimation itself. The second is setting thresholds ex-ante according to preferences only. They then provide real-world and simulation evidence that either alternative results in stable thresholds, while keeping or improving on out-of-sample performance.

Hippolyte Wenéyam Balima, Jean-Louis Combes, and Alexandru Minea in the fifth contribution to this issue look at the effect of initiation of credit default swaps on sovereign debt crises. Their contribution is entitled, "The 'Dark Side' of Credit Default Swaps Initiation: A Close Look at Sovereign Debt Crises." They report that initiating credit default swap increases the probability of sovereign debt crises. This result is stronger for developing countries, for countries with initial lower creditworthiness, and when the degrees of central bank independence and public sector transparency are low.

"Index Numbers and Revealed Preference Rankings" can be thought of as transition paper for this issue. Per Hjertstrand, James Swofford, and Gerald Whitney compare the performance of creditable index numbers and simple summation. They find the problems with simple summation manifest and all indexes outperformed the simple sum, as the number of goods increases. They further find superlative indexes always have the direction of change right, while the Laspeyres

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and simple sum indexes sometime get it wrong, over all time periods and structures all indexes outperformed the simple sum, and no index outperformed the superlative indexes. These authors study both monetary and real sector aggregation. As index numbers are important in constructing the data on economic performance and growth, this paper leads naturally to the next six of papers that address current issues of economic performance.

Réda Marakbi, Camélia Turcu, and Patrick Villieu look at the effect of institutions on the nexus of corruption and growth in the seventh paper in this issue. In their paper entitled "Institutions' Impact on the Corruption-Growth Nexus: Nonlinearities and Transmission Channels" these authors find using an endogenous growth model that both theoretically and empirically the corruption–growth relation can be subject to nonlinearities highly influenced by institutional development. They further find that private investment and public spending are two main channels through which institutional quality impacts the relationship between corruption and growth.

The eighth paper in this issue by Vahagn Jerbashian is "Intellectual Property and Product Market Competition Regulations in a Model with Two R&D Performing Sectors." The author analyzes the impact of intellectual property and product market regulations on innovation and long-run growth in an endogenous growth model with two R&D performing sectors. He shows that strengthening intellectual property rights and competition in a sector increases sector R&D investment while adversely affecting R&D.

Investment in the other sector makes the impact of such policies ambiguous. The author then performs a numerical exercise finding that stronger intellectual property rights increase growth, but more competition has a very limited effect on growth.

In the ninth contribution, "Do Corporate Taxes harm economic performance? Explaining distortions in R&D- and Export-Intensive UK Firms," Ioannis Bournakis and Sushanta Mallick also look at R&D along with corporate taxes and total factor productivity. They find that higher levels of corporate taxation negatively impact total factor productivity, R&D intensive and export-intensive firms have higher rates of total factor productivity growth, and that higher levels of tax liability, as a share of earnings before interest and tax, slow total factor productivity growth for these firms.

In "Current Account Dynamics and the Real Exchange Rate: Disentangling the Evidence" by Matthieu Bussiere, Aikaterini Karadimitropoulou, and Miguel A. León-Ledesma, the authors study the shocks driving current account fluctuations for G6 economies. They use a two-goods intertemporal model designed to uncover the role of permanent and temporary output shocks and the relation between the real exchange rate and the current account. They find substantial support for their model with a time-varying interest rate, the nature of the shock matters to shape the relationship between the current account and real exchange rates, and though the response is smaller than in previous studies, that temporary domestic shocks account for a large proportion of current account fluctuations.

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Their results can explain a puzzle in prior literature of how a shock that explains little of output changes can explain a large proportion of current account changes.

The elevent paper in this issue examines regional convergence in large emerging economies. In "Regional Convergence in Large Emerging Economies: A Distribution Dynamics Approach," Kiril Tochkov specifically examines output per capita for various regions of Brazil, China, India, and Russia. He finds that Chinese regions with below-median output per capita have the highest probability of transitioning toward higher outputs, while Brazilian regions seem trapped at the lower per capita output levels. Further while India has the lowest and Russia one of the highest regional output differences, each displays persistence for both high and low output per capita regions. He also finds generally that government spending and the rule of law are driving forces for regional convergence in per capita production; however, for Russia these factors have the opposite effect. Further, he finds innovation and property rights promote convergence in China, but are associated with regional divergence in India.

"Temporal and Spatial Dependence of Interregional Risk Sharing: Evidence from Russia" by Jarko Fidrmuc and Moritz Degler concludes the special issue of **Macroeconomic Dynamics** on current issues in applied macroeconomics. These authors analyze interregional consumption risk sharing in Russia for 1999 through 2009. They find that regional consumption deviations are highly persistent over space and time. Further they find that regional consumption risk sharing in Russia is relatively high. Finally, they find that fiscal policy and the degree of financial development appear to contribute to this consumption smoothing.

For many papers collected in this issue, the authors performed substantial sensitivity analyses and robustness tests, which could not be included in the print version due to space constraints. The online appendixes for those papers are collected at the conference website at http://www.appliedmacro.org/index.php/special-issue/macroeconomic-dynamics.

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