

ESRC MACROECONOMIC  
MODELLING BUREAU

*NEWSLETTER*

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Newsletter 39.

November 1999

**THE BUREAU CLOSES ...**

This farewell edition of the Newsletter marks the closure of the Macroeconomic Modelling Bureau on 30 September 1999. The Bureau was established at the University of Warwick by the Economic and Social Research Council in September 1983, for four years in the first instance. In the course of its investigation into macroeconomic research in the United Kingdom a Research Council committee had considered the case for setting up a new centre, to undertake comparative research on existing models of the UK economy and to help achieve greater openness and understanding of the models and their associated forecasts and policy analysis. The committee also recommended the establishment of the Macroeconomic Modelling Consortium, to coordinate support for a programme of research in macroeconomic modelling provided by the Research Council, HM Treasury and the Bank of England, and to manage this on a four-year cycle. Following its selection of the Warwick proposal in a competition to establish the new centre, the Consortium supported the Bureau in each of its four four-year phases, albeit at a declining level, until the programme was discontinued in 1999. At this time the ESRC introduced a new research programme titled "Understanding the Evolving Macroeconomy", and a small number of projects that might have been supported by the Consortium had it continued to a fifth phase are among the eighteen projects being funded in the first phase of the new programme, whose Director is Mark Taylor (Warwick Business School).

**... NETWORKING AND SEMINARS CONTINUE**

Networking and information dissemination is being continued and extended by the establishment of a macroeconomic-modelling list using the facilities of the Newcastle-based National Mailbase Service. This is an open list, which can be reached at <http://www.mailbase.ac.uk/lists/macroeconomic-modelling/> or the listowner can be emailed directly: [K.F.Wallis@warwick.ac.uk](mailto:K.F.Wallis@warwick.ac.uk)

Macroeconomic modelling seminars are planned to continue, with occasional Friday afternoon meetings in London and the annual Warwick residential meeting in the first week of July 2000. Details will be announced via the mailbase list. A final conference involving Consortium phase 4 award-holders and guest speakers is planned for Spring 2000 in London, supported by Consortium residual funds and the new macroeconomics

programme. This follows the "Macroeconomic Modelling and Economic Policy" Conference held in London in January 1998 (see Newsletter 36).

Bureau web pages are still available, at

<http://www.warwick.ac.uk/fac/soc/Economics/MMB/>

In particular the list of publications is being updated as papers in progress reach final publication stage, and information about the mailbase list is also available there. Note that Bureau usercodes and addresses of the form mbra- are no longer in use.

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### **ESRC Macroeconomic Modelling Seminar, 6-8 July 1999**

The final annual residential seminar under Bureau auspices was held at Radcliffe House, University of Warwick, from Tuesday 6 July to Thursday 8 July, 1999. The guest speaker on the Tuesday evening was Gus O'Donnell (HM Treasury), and sixteen papers were presented during the day-time sessions, as follows

Equilibrium unemployment rates and wage flexibility in Europe

R.C.M.H. Douven (CPB)

Measuring structural unemployment in OECD countries

Laurence Boone & Dave Turner (OECD)

Achieving price stability in the euro zone: monetary or inflation targeting?

Marga Peeters (Netherlands Bank)

Inflation targetry and the modelling of wages and prices

Silvia Sgherri & Kenneth F. Wallis (MMB)

Nominal contracting and monetary targets - drifting towards indexation

Patrick Minford (Cardiff/CEPR), Eric Nowell (Liverpool) & Bruce Webb (Cardiff)

The Italian case - a parable for the Eastern enlargement of the EMU

Frank Bohn (Heidelberg)

Comparative properties of models of the UK economy

Keith B. Church, Joanne E. Sault, Silvia Sgherri & Kenneth F. Wallis (MMB)

Fiscal policy rules in macroeconomic models: principles and practice

Peter R. Mitchell, Joanne E. Sault & Kenneth F. Wallis (MMB)

A small structural model of the UK monetary transmission mechanism

Shamik Dhar, Darren Pain & Ryland Thomas (Bank of England)

Equity prices and macroeconomic activity

Campbell Leith (Glasgow) & Simon Wren-Lewis (Exeter)

An encompassing framework for evaluating simple monetary policy rules

Ray Barrell, Karen Dury & Ian Hurst (NIESR)

The Average Earnings Index

Ray Chambers (Southampton), Martin Weale (NIESR) & Robin Youell (ONS)

On detectable and non-detectable structural change

David F. Hendry (Oxford)

Wages, productivity, inflation and unemployment in Italy, 1970-1994

Massimiliano Marcellino (IGIER/EUI/Milan) & Grayham E. Mizon

(EUI/Southampton)  
Inward investment and technical progress  
Florence Hubert & Nigel Pain (NIESR)  
Skill heterogeneity and the NAIRU  
Rebecca Riley & Garry Young (NIESR)

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## SUMMARY OF BUREAU DISCUSSION PAPER

**Discussion Paper No.54.** Monetary transmission channels, monetary regimes and consumption behaviour, by Silvia Sgherri (September 1999)

This paper explores in detail the characteristics of the monetary transmission mechanism in the United Kingdom, as portrayed by the National Institute's Domestic Econometric Model (NiDEM). Sensitivity to different monetary policy regimes and to alternative models of consumers' expenditure is assessed. The methods adopted quantify not only the total impact of a temporary monetary shock on the main GDP components but also the contributions of the various transmission channels. Our analysis supports the evidence that the interest sensitivity of consumption becomes significantly lower when consumers "excessively discount" the future. More interestingly, we note that monetary shocks have relatively large effects on the real economy through their repercussions on fiscal variables; this is more obvious when the exchange rate is fixed and departures from Ricardian equivalence are enhanced.

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## RECENT AND FORTHCOMING PUBLICATIONS

Church, K.B. (1999). Properties of the fundamental equilibrium exchange rate in the Treasury model. *National Institute Economic Review*, No.169, 96-104.  
(Revised version of Discussion Paper No.53)

Church, K.B., Sault, J.E., Sgherri, S. and Wallis, K.F. (2000). Comparative properties of models of the UK economy. *National Institute Economic Review*, No.171, forthcoming.

Diebold, F.X., Tay, A.S. and Wallis, K.F. (1999). Evaluating density forecasts of inflation: the Survey of Professional Forecasters. In *Cointegration, Causality, and Forecasting : A Festschrift in Honour of Clive W.J. Granger* (R.F. Engle and H.White, eds), pp.76-90. Oxford: Oxford University Press.  
(Revised version of Discussion Paper No.48)

Mitchell, P.R., Sault, J.E. and Wallis, K.F. (1999). Fiscal policy rules in macroeconomic models: principles and practice. *Economic Modelling*, forthcoming.  
(Revised version of Discussion Paper No.52)

Peeters, M. (1999). The public-private savings mirror and causality relations among private savings, investment and (twin) deficits: a full modelling approach. *Journal of Policy Modelling*, 21, forthcoming.

(Revised version of Discussion Paper No.42)

Smith, P.N. (1999). Output price determination and the business cycle. *Economic Modelling*, forthcoming.

(Revised version of Discussion Paper No.36)

Tay, A.S. and Wallis, K.F. (1999). Density forecasting: a survey. *Journal of Forecasting*, forthcoming.

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### **BUREAU STAFF 1983-99**

The Director of the Bureau (part-time) throughout its existence was Kenneth F. Wallis, who now devotes himself full-time to his appointment as Professor of Econometrics in the Department of Economics at the University of Warwick. The full-time research staff of the Bureau, with their present location, were as follows

|                             |   |
|-----------------------------|---|
| Martyn Andrews (1983-86)    | University of Manchester                      |
| David Bell (1983-85)        | University of Stirling                        |
| Keith Church (1990-99)      | Oxford Economic Forecasting                   |
| Paul Fisher (1983-1990)     | Bank of England                               |
| Andrew Longbottom (1985-87) | Abbey National plc                            |
| Peter Mitchell (1990-98)    | Bank of England                               |
| Joanne Sault (1994-99)      | Congressional Budget Office,<br>Washington DC |
| Silvia Sgherri (1998-99)    | Netherlands Central Bank                      |
| Peter Smith (1992-95)       | University of York                            |
| Sailesh Tanna (1987-1990)   | Coventry University                           |
| David Turner (1986-1991)    | OECD, Paris                                   |
| John Whitley (1983-92)      | Bank of England                               |

In addition, with the support of the Human Capital and Mobility Programme of the European Community, four HCM fellows were associated with the Bureau for one or two years during 1995-97, namely Rudy Douven, Reinhard Madlener, Marga Peeters and Olivier Salomé.

*Honoris Causa*

The University of Groningen conferred an honorary doctorate on the Director of the Bureau, Professor K.F. Wallis, during its 385th anniversary celebrations in June 1999. (Groningen is the second oldest Dutch university, Leyden being the oldest.) The "laudatio" delivered on the occasion made particular reference to his "fundamental contributions to the advancement of macroeconomic model building in the broadest sense" and to the work of the Bureau. He has been a frequent visitor to Groningen, as a participant in conferences organised by the Centrum voor Conjunctuur en Structuur Onderzoek (CCSO) and as a member of the Advisory Board of the Research School "Systems, Organisation and Management", among other things.

The ESRC Macroeconomic Modelling Bureau is established by the Economic and Social Research Council at the University of Warwick. The Council is however not responsible for the contents, opinions and conclusions of any Bureau publication. The Newsletter presents information about the Bureau's activities and facilities and serves as an information clearing house in the macroeconomics modelling area.