

Journal of **APPLIED** **ECONOMETRICS** **NEWSLETTER**

Issue 11

Fall 2011

From the Editor

This year the Annual Editorial Meeting of the Journal took place at Yale University where [Elie Tamer](#) (Northwestern University) presented this year's JAE's lecture on partial identification. I was also pleased to welcome [Lutz Kilian](#) (University of Michigan) as JAE's Distinguished Author at JAE's Annual Dinner at Yale. I would like to thank Edward Vytlačil (one of our co-editors) who helped organize the meeting and the JAE lecture.



As advertised, [Frank Diebold](#) joined the Journal as a new co-editor from July 1st; he will be handling papers on time series and forecasting. I would like to take this opportunity to welcome him on board and encourage authors to submit their best papers in the area of time series and forecasting to JAE, with the knowledge that their work will be handled professionally and expertly by one of the most distinguished figures in the profession.

I would also like to draw your attention to the Special Issue which was published earlier this year on "[Measurement and analysis of subjective expectations](#)" edited by Charles Bellemare and Chuck F Manski. As some of you might know, I have long been interested in how expectations are formed and updated. I found the papers in this Special Issue very relevant and timely contributions to an important subject that has been relatively ignored in the literature.

Finally, I am pleased to report that we have continued to support many conferences and workshops world-wide, covering many areas of econometrics. This year alone we shall be contributing to as many as 20 [different conferences/workshops](#).

M. Hashem Pesaran
The Editor

In this issue:

[Forthcoming Articles](#)

[Most downloaded Early View article](#)

[Top 5 downloaded articles in 2011 \(FREE to read online\)](#)

[Conferences Sponsored by JAE](#)

[Journal of Applied Econometrics Data Archive](#)

[How to publish in JAE](#)

[Aims and Scope of JAE](#)

[Free Content Alerting!](#)

[Top↑](#)

Abstracts of Forthcoming Articles

[Evaluating Density Forecasts: Forecast Combinations, Model Mixtures, Calibration and Sharpness](#) by James Mitchell and Kenneth F Wallis

This paper reviews current density forecast evaluation procedures, and considers a proposal that such procedures be augmented by an assessment of 'sharpness'. This was motivated by an example in which some standard evaluation procedures using probability integral transforms cannot distinguish the ideal forecast from several competing forecasts. We show that this example has some unrealistic features from a time-series forecasting perspective, and so provides insecure foundations for the argument that existing calibration procedures are inadequate in practice. Our alternative, more realistic example shows how relevant statistical methods, including information-based methods, provide the required discrimination between competing forecasts. We introduce a new test of density forecast efficiency.

[Assessing the Temporal Variation of Macroeconomic Forecasts by a Panel of Changing Composition](#) by Joseph Engelberg, Charles F Manski and Jared Williams

This paper calls attention to the problem of changing panel composition in surveys of forecasters and documents the problem in the Survey of Professional Forecasters. To study the temporal variation of forecasts, we recommend analysis of the time-series of predictions made by individual forecasters. This makes transparent the heterogeneity of the panel and avoids improper inferences due to changing panel composition. In the absence of knowledge of the process determining panel composition, we warn against the traditional practice of aggregate time-series analysis, which conflates changes in the expectations of individual forecasters with changes in the composition of the panel. Should analysis of aggregated predictions be thought desirable as a simplifying device, we recommend analyses of sub-panels of fixed composition.

[Top↑](#)

[Revealing the Preferences of the US Federal Reserve](#) by Pelin Ilbas

We use Bayesian methods to estimate changes in US post-war monetary policy in the Smets and Wouters (2007) model. We perform the estimations by allowing for a break in monetary policy at the time of Volcker's appointment as chairman. This enables us to capture changes in the monetary policy regime introduced by Volcker during the Volcker-Greenspan period. We find support for the assumption that monetary policy in the Volcker-Greenspan period performed optimally under commitment. Our estimation strategy allows us to estimate the preferences of the US Federal Reserve in the Volcker-Greenspan period, where the main objective of policy appears to be inflation, followed by interest rate stabilization, output growth and interest rate smoothing. We find that the Great Moderation of output growth is explained by a combination of two factors: the decrease in the volatility of the structural shocks and the improved monetary policy conduct. Inflation Stabilization, however, is mainly due to the change in monetary policy that took place at the beginning of Volcker's mandate.

[Modeling Dependence using Skew t Copulas: Bayesian Inference and Applications](#)

by Michael Smith, Quan Gan and Robert Kohn

We construct a copula from the skew t distribution of Sahu, Dey & Branco (2003). This copula can capture asymmetric and extreme dependence between variables, and is one of the few copulas that can do so and still be used in high dimensions effectively. However, it is difficult to estimate the copula model by maximum likelihood when the multivariate dimension is high, or when some or all of the marginal distributions are discrete-valued, or when the parameters in the marginal distributions and copula are estimated jointly. We therefore propose a Bayesian approach that overcomes all these problems. The computations are undertaken using a Markov chain Monte Carlo simulation method which exploits the conditionally Gaussian representation of the skew t distribution. We employ the approach in two contemporary econometric studies. The first is the modeling of regional spot prices in the Australian electricity market. Here, we observe complex non-Gaussian margins and nonlinear inter-regional dependence. Accurate characterization of this dependence is important for the study of market integration and risk management purposes. The second is the modeling of ordinal exposure measures for 15 major websites. Dependence between websites is important when measuring the impact of multi-site advertising campaigns. In both cases the skew t copula substantially out-performs symmetric elliptical copula alternatives, demonstrating that the skew t copula is a powerful modeling tool when coupled with Bayesian inference.

[**A Panel Data Approach for Program Evaluation – Measuring the Benefits of Political and Economic Integration of Hong Kong with Mainland China**](#) by Cheng Hsiao, H. Steve Ching and Shui Ki Wan

We propose a simple to implement panel data method to evaluate the impacts of social policy. The basic idea is to exploit the dependence among cross-sectional units to construct the counterfactuals. The cross-sectional correlations are attributed to the presence of some (unobserved) common factors. However, instead of trying to estimate the unobserved factors, we propose to use observed data. We use a panel of 24 countries to evaluate the impact of political and economic integration of Hong Kong (HK) with Mainland China. We find that the political integration hardly had any impact on the growth of the Hong Kong economy. However, the economic integration has raised HK's annual real GDP by about 4%.

[Top↑](#)

Most Downloaded Early View Paper

Note: This paper will not be published in an issue for a while yet as it is several issues down the publishing queue.

[**Nonparametric Estimation of the Impact of Taxes on Female Labor Supply**](#) by Anil Kumar

This paper proposes a simple extension of nonparametric estimation methods for nonlinear budget-set models derived in Blomquist and Newey (2002) to censored dependent variables. The nonparametric method is applied to estimate female labor-supply elasticities using data on married women from the 1985 and 1989 waves of the PSID, exploiting the substantial variation in budget sets caused by the Tax Reform Act of 1986 (TRA86) as a source of identification. The estimated wage elasticities from the new method are 0.56 overall and 0.27 on the intensive margin. The income elasticity estimates are close to -0.67 overall and -0.13 on the intensive margin. Compared with the linear labor supply model, the estimated elasticities are usually larger for the nonparametric specifications that account for nonlinear budget sets.

[Top↑](#)

Top 5 most downloaded articles in 2011 – FREE to read online

[Does peer ability affect student achievement?](#)

Eric A. Hanushek, John F. Kain, Jacob M. Markman and Steven G. Rivkin

[Multivariate GARCH models: a survey](#)

Luc Bauwens, Sébastien Laurent and Jeroen V. K. Rombouts

[Computation and analysis of multiple structural change models](#)

Jushan Bai and Pierre Perron

[Bounds testing approaches to the analysis of level relationships](#)

M. Hashem Pesaran, Yongcheol Shin and Richard J. Smith

[A forecast comparison of volatility models: does anything beat a GARCH\(1,1\)?](#)

Peter R. Hansen and Asger Lunde

[Top↑](#)

Conferences Sponsored by JAE in 2011

More than just an outlet for innovative and quantitative research in the application of econometric techniques to a wide variety of problems in economic and related fields, the *Journal of Applied Econometrics* also offers [financial support](#) (up to \$5,000) towards the cost of organizing conferences to promote research in applied econometrics.

Conference (website)	Venue	Date
Camp Econometrics VI	Lake Placid, New York	9-10 April 2011
Advances in Development Econometrics	University of Southern California	14-15 April 2011
7th Symposium on Econometric Theory and 2011 Conference	Monash University Australia	14-16 April 2011
Causality, Predication and Specification Analysis Conference Dr. Hal White, Jr.	UC San Diego	6-7 May 2011
Nonlinear and Financial Econometrics Conference Gallant	Toulouse School of Economics	19-21 May 2011
5th CIREQ Time Series Conference	Montreal	27-28 May 2011
2011 North American Summer Meeting of the Econometric Society	Washington University in St. Louis	9-12 June 2011
17th Annual Conference on Computing in Econometrics 2011	Federal Reserve Bank of San Francisco	29 June-1 July 2011
University of Cambridge Conference in honour of	University of Cambridge, UK	1-2 July 2011
11th Doctoral Workshop in Economic Theory and Econometrics (MOOD 2011)	EIEF, Rome	4-6 July 2011
17th International Conference on Panel Data	McGill University (Business School)	8-10 July 2011
African Econometric Society 2011	Kenya School of Monetary Studies	13-15 July 2011
OxMetrics Conference at Maastricht University	Maastricht University	1-2 Sept 2011
Inaugural Conference on Iran's Economy	London Middle East Institute	9-10 September 2011
Money, Macro and Finance Research Group 43rd Conference (MMF 2011)	Birmingham Business School, UK	15-17 September 2011
EUI – New Developments in Time Series Econometrics	EUI, Florence, Italy	15-17 September 2011
2011 Midwest Econometrics Group Conference	Booth School of Business, Chicago	7-8 October 2011
Canadian Econometric Study Group (CESG) "The Economics of Economic Interactions"	Ryerson University, Toronto	21-23 October 2011
2nd European Seminar on Bayesian Econometrics	CORE, Universite Catholique de Louvain	4-5 November 2011
European Conferences of the Econometric Society	Florence, Italy	15-17 December 2011

Journal of Applied Econometrics Data Archive

The [JAE Data Archive](#) is a very important feature of the *Journal of Applied Econometrics*, making it possible for other researchers to replicate results of papers published in the Journal, or to evaluate alternative models.

Hosted by a server belonging to the [Economics Department](#) of [Queen's University](#), it contains data for all papers accepted after January 1994, with the exception of a growing number of papers for which the data are confidential. There are some data for a few papers accepted earlier than January 1994, but Volume 10, No. 1 (1995) is the first issue in which all papers were accepted subject to the proviso that data be provided.

For some papers, especially more recent ones, the Data Archive also contains programs and supplementary material, such as technical appendices and additional graphs. As of September 2011 there were directories for over 750 papers in the archive.

[Top↑](#)

How to publish in JAE

The *Journal of Applied Econometrics* is published by John Wiley & Sons Ltd.

EDITORS: [M. Hashem Pesaran](#);

[Tim Bollerslev](#);

[Frank Diebold](#)

[Thierry Magnac](#);

[Lucrezia Reichlin](#);

[Herman K. van Dijk](#);

[Edward Vytlačil](#);

[Badi H. Baltagi](#);

[James G. MacKinnon](#);

[Melvyn Weeks](#)

Electronic submissions of papers are to be made online at <http://editorialexpress.com/jae>

Please send letters and other ideas for the *Journal* to:

Editorial Office

Faculty of Economics

University of Cambridge

Sidgwick Avenue, Cambridge CB3 9DD, UK

Tel: +44 (0)1223 335291

Fax: +44 (0)1223 335471

E-mail: econjae@hermes.cam.ac.uk

Website: <http://jae.wiley.com/>

[Top↑](#)

Aims and Scope of JAE

[The Journal of Applied Econometrics](#) (published in seven issues per year) is a bi-monthly international journal which aims to publish articles of high quality dealing with the application of existing as well as new econometric techniques to a wide variety of problems in economics and related subjects, covering topics in measurement, estimation, testing, forecasting, and policy analysis. The emphasis is on the careful and rigorous application of econometric techniques and the appropriate interpretation of the results. The economic content of the articles is stressed.

The intention of the *Journal of Applied Econometrics* is to provide an outlet for innovative, quantitative research in economics which cuts across areas of specialization, involves transferable techniques, and is easily replicable by other researchers. Contributions that introduce statistical methods that are applicable to a variety of economic problems are actively encouraged. The *Journal* also aims to publish review and survey articles that make recent developments in the field of theoretical and applied econometrics more readily accessible to applied economists in general.

[Top↑](#)

Wiley Online Library New Content Alerts

Receive the table of contents of the *Journal of Applied Econometrics* as soon as it publishes online. Sign up for free at wileyonlinelibrary.com/journal/jae – simply sign in to Wiley Online Library in the top right and then click on ‘Get New Content Alerts in the left hand menu. (If you do not have an account with Wiley Online Library, you can register [here](#) for free)

[Top↑](#)