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The road ahead

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The future of macroeconomic models for policy
analysis

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Diversity- models serve different purposes, may need diff. models

- . Make theoretical points
- . Explore theoretical issues in general equilibrium
- . Quantify effects & mechanisms empirically
- . Forecasting

- . Additional models come at a cost
 - .Advantage to use a familiar model
- . => Diversity in profession, not necessarily for all research groups



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- . DSGE–dynamic stochastic general equilibrium

DSGE



Diversity- models serve different purposes, may need diff. models

- . Make theoretical points

- DSGE {
 - . Explore theoretical issues in general equilibrium
- SEM {
 - . Quantify effects & mechanisms empirically
 - . Forecasting

- . DSGE–dynamic stochastic general equilibrium

- . SEM – structural econometric model



- . Common theoretical framework, based on optimising behavior
- . New features and mechanisms are added
 - . Various types of financial frictions
 - . Heterogeneous agents
- . Allow for cumulative improvements
- . Some key assumptions are problematic
 - . Excessive reliance on forward-lookingness
 - . Welfare effects of price rigidities are implausible
 - . Exogenous steady state
- . Estimation method is fragile



- . Model equations based on theory
- . Emphasis on empirical fit to the data
 - . Impose robust theory, not simplifying or controversial theoretical restrictions
- . Some advantages over DSGE models
 - . Simpler => can incorporate more mechanisms and sectorspecific analysis
 - . Avoid empirically dubious restrictions
- . Less scope for cumul. theoretical improv.
- . Should add other types of info & evidence



- . Diversity in profession
 - .Not necessarily for all research groups
- . DSGE models
 - .Main framework with considerable progress
 - .Key assumptions should be revised
- . Structural econometric models
 - .Theory basis, but emphasis on empirical fit
 - .Avoid narrow theoretical restrictions