16.5.2023 3pm

Forecasting Summer School, 2023:

Modeling and Forecasting the International Dimensions: Business cycles, exchange rates, and cross-border flows capital and trade flows.

Instructor: Menzie Chinn

Practitioners have long attempted to understand movements in macroeconomic variables in an open economy context and use that knowledge to help forecast key variables. In some areas, theory has moved forward more than practical empirics, and in others empirical techniques have moved beyond theory. The course starts with a review of key cross border relationships in the context of continuing globalization, and then moves to sections on examining key variables: Business cycles, macro-financial linkages, current account balances, exchange and interest rates.

The outline of the course is as follows:

Schedule

Morning coffee: 8:30-9

Session 1: 9-12

Session 1a: Overview: Changes in the Global Economy – Some Key Variables

Session 1b: Forecasting business cycles across borders using financial indicators
Using standard term spread models, augmented with financial indicators to predict recessions and economic activity (Chinn, Kucko, 2015)
Foreign variables and Foreign Term Spreads to predict recessions (Ahmed, Chinn, 2023)
Data analysis/Application 1: Analysis with current data of recessions cross-country (data provided) with EViews or own package

Lunch: 12-1

Session 2: 1-4 Trade and current account balances

Elasticities approach/absorption approach
Basic approach from saving and investment perspective (Chinn, Prasad, 2003)
Modifications incorporating institutional variables, financial openness (Chinn, Eichengreen, Ito, 2013)

Adding in FX intervention and exorbitant privilege as current account determinants (Bayoumi, Gagnon, Sabarowski, 2015)

Coffee break: 2:30-2:45

Session 2: Current account balances
IMF External Balances Approach (various)

Coffee Break: 8:30-9

Session 3: 9-12 Exchange rates and Interest rates

Prediction using structural models, incorporating money, interest rates, income, interest rates, productivity, price levels (Cheung, Chinn, Garcia Pascual, Zhang, 2019)
Comparison to atheoretical or time series models
Data analysis/Application 2: Prediction/forecasting of nominal exchange rate (data provided)
Interest rate linkages, including uncovered and covered interest rate parity (Bussiere, Chinn, Ferrara, Heipertz, 2022) (with EViews or own package)

Lunch: 12-1

Session 4: 1-4 Inflation – Domestic vs. International Forces

Conventional Phillips curve approaches
International dimensions
- global factors and global output gaps as determinants
- exchange rate pass through and dominant currency paradigm

References

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Bussiere, M., M. Chinn, L. Ferrara, and J. Heipertz, "The New Fama Puzzle," *IMF Economic Review* (2022): 1-26.

Cheung, Y.-W., M. Chinn, A. Garcia Pascual, and Y. Zhang, "Exchange Rate Prediction Redux: New Models, New Data, New Currencies," Journal of International Money and Finance 95 (2019): 332-362.

Chinn, M., B. Eichengreen, and H. Ito, "A Forensic Analysis of Global Imbalances," Oxford Economic Papers 66(2) (April 2014): 465-490.

Chinn, M. and K. Kucko, “The Predictive Power of the Yield Curve across Countries and Time,” International Finance (2015): 1-28.

Chinn, M. and E. Prasad, “Medium-Term Determinants of Current Accounts in Industrial and Developing Countries: An Empirical Exploration,” Journal of International Economics 59(1) (January 2003): 47-76.