

Project Title: The Yield Curve Spread and the U.S. Business Cycle

Investigator: David Beckworth

Department: Finance & Economics

Project Summary:

My project including two parts: (1) enhance a national forecasting model and (2) build a state-level forecasting model. I am still working on both project. I am currently working with an economist from the Dallas Federal reserve on the national economist and am hopeful that paper will be submitted by this fall. On the state-level project I am still working on this project, but ran into some difficulties with the forecasting model. I hope to have a working paper by this fall.

Project Title: The Macroeconomic Consequences of Remittances

Investigator: Diego Eduardo Vacaflores Rivero

Department: Finance & Economics

Project Summary:

This project examines the impact of remittances on a small open economy with a stochastic limited participation model with cash in advance constraints and costly adjustment of cash holdings. It studies the impact of remittances on the steady state, as well as on the dynamics of the main macroeconomic aggregates. It finds that a remittances shock in our model with adjustment costs will lower the nominal interest rate and create a liquidity effect, reduce output for several periods before it eventually increases above its initial level, depreciates the nominal exchange rate on impact and then continuously appreciate, and increases consumption on impact to then smoothly return to its initial steady state due to the adjustment cost on money balances.

It also shows that a permanent increase in remittances results in households choosing more leisure and allowing for more consumption, increasing per-period utility. Remittances are good for households, but do not necessarily lead to an increase in steady-state output. With respect to the end use of remittances are also examined, the model shows that the decrease in the nominal interest rate and the initial depreciation of the nominal exchange rate are accentuated as the amount of remittances that are available for immediate consumption is reduced. In addition, while this will increase the response of output to the remittances shock, this higher level of output is not strong enough to eliminate the fall in consumption. To finish, our model also show that the macroeconomic response to a remittances shock is independent of the use of the remitting motive – countercyclical or procyclical – which affect the magnitude but not its behavior.

Presentations:

Presented in the Conference on Hispanic American Economic Issues, Texas A&M University, College Station, TX, October 25-26, 2008.