



Seminar

“Issues Concerning Determinacy, Learnability, Plausibility, and the Role of Money in New Keynesian Models” (in English)



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Abstract:

It has been common to view monetary models as possessing *determinacy* if they feature a single rational expectations solution that is dynamically stable. Cochrane (NBER, 2007) showed that the single-stable solution (SSS) condition is not sufficient as a criterion of determinacy, however, because in typical New Keynesian models when the Taylor Principle is satisfied there exists a dynamically explosive solution that is not ruled out by any transversality condition and accordingly can be eliminated only by an arbitrary dictum. McCallum (JME, 2009b) agrees but has shown that it is typically the case that the explosive solutions in question are not least-squares learnable. Further, he has argued that such learnability should be considered a *necessary* condition for a solution to be regarded as a model's prediction since it amounts to a *feasibility* condition that pertains to information available to individual agents. The present paper reviews the ensuing exchange with Cochrane who claimed that there are three weaknesses in McCallum's argument. Apart from pointing out flaws in Cochrane's argument it reviews two additional criteria for determinacy.

Date: 31 May 2012 (Thursday)

Time: 2:30pm – 4:00pm

Venue: AM309, Amenities Building

Biography:

Professor Bennett T. McCallum has been H.J. Heinz Professor of Economics of Carnegie-Mellon University since 1986. His work in macroeconomics and monetary economics is well known. What is not much known is that he was a chemical engineer by training and by profession before he switched field to economics. A Fellow of the Econometric Society, he has served on the editorial boards of *Southern Economic Journal*, *Journal of Monetary Economics*, *Economics Letters*, *Journal of Money, Credit and Banking*, *American Economic Review*, *International Journal of Finance & Economics*, among others. He was Co-editor, *American Economic Review* (1988-91) and continues to serve as Co-Editor, *Carnegie-Rochester Conference Series on Public Policy*. His publications have appeared in all the top journals of economics.

○ All are welcome

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