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Economic Deviations and Growth in Six OECD Economies

by Jean Chateau and Pierre-Yves Hénin

Anumber of studies in recent years have broken down GDP into cyclical and growth components. Yet various questions have been raised about breakdowns made using a purely statistical approach. This article chooses to use the OECD breakdown between potential product and economic deviation in order to include it in bivariate modelling.

The study proposes a statistical evaluation of GDP dynamics in six OECD economies as resulting from two orthogonal impulse sources : growth shocks and economic shocks, which are identified by the short- and long-run restrictions on their contributions within the framework of a semi-structural VAR. The results do not corroborate the Nelson and Plosser conclusion (1982), but rather support a dichotomous vision whereby growth impulses contribute very little to economic deviation.

Pinpointing GDP Cycles in France Since the End of the Second World War

by Dominique Allard

The extent and duration of the current depression have revived questions concerning cyclical changes in the French economy. Contrary to other countries, especialy the United States, there is no analytical history available on economic fluctuations in France There is as yet no reference chronology of business cycles, and certainly no "official" chronology, such as that produced by the NBER Only the OECD mits comparative analysis work, has drawn up descriptions of French business cycles and published summary economic indicators This article puts forward a chronology of economic developments in France since the Second World War, based mainly on an analysis of market GDF characteristics. It endeavours to highlight any economic regularities by using essentially statistical methods. Agreat deal of attention has been paid to definition and methodological problems, and an agnostic stand has been adopted to the theoretical approach to cycles. However, a brief assessment is made of the pertinence of various theoretical approaches with regard to the empirical characteristics of economic fluctuations in France.

Price and Industrial Wage Dynamics: Staggered Contracts and Rational Expectations

by Jean-Christophe Pereau

This article provides a theoretical and numerical analysis of the macroeconomic effect of wage and price rigidity in the form of staggered contracts on industrial wage and price dynamics in France. The theoretical framework chosen is a multisectorial price-wages loop in a situation of monopolistic competition. After checking the Blanchard and Kahn conditions for the values specific to the model calculated for 1993, we present the dynamic multipliers linked to transitory shocks in the price for raw materials. The results of the simulations highlight a typology of cost-push inflation mechanisms and real wage fluctuations depending on whether the shocks affecting the economy are expected or not.

Causal Relations between Military Spending and its Macroeconomic Environment: Partial Tests for France and the United States

by Jean-François Jacques and Emmanuel Picavet

This article presents the results of Granger causality tests made in a multivariate context comprising military spending, the budget deficit and domestic product for France (1953-1989) and the United States (1947-1990). In the case of France, close dependency links are found between these variables Conversely; military spending in the United States appears to stand somewhat apart from product fluctuations and the budget deficit. The introduction of an additional series (real interest rates) in no way challenges these conclusions.

A GDP Forecast Using the Rate Curve: An Empirical Observation in Search of a Theory

by Éric Dubois and Didier Janci

For many countries, the deviation between short-term interest rates and long-term interest rates would appear to contain information concerning future economic growth. Several models provide a theoretical justification for such a relation, but none of them is totally satisfactory or empirically sound. These models are based either on the intertemporal smoothing of consumption or on the formation of expectations regarding agents monetary policy, i.e. on the effects of monetary policy on economic activity, possibly via the banks' credit supply.

In spite of the theoretical problems involved with finding a completely satisfactory justification for this, the relation is highly sound from anempirical point of view. French data thus show that the deviation between the three-month money rate and the ten-year bond rate definitely contains, one year m advance, original information on future economic growth in relation to a set of normally pertinent economic Moreover, this information can be rounded out by the addition of some of these variables to construct an advanced and extremely high-quality activity indicator.

The Term-by-Term Structure of Interest Rates and Economic Recovery

by Patrick Artus and Moncef Kaabi

We examine the validity of the theory by which economic recovery is always preceded by an upturn in the term-by-term interest-rate structure curve. We study the data for the leading countries and compare them with information derived from a simple theoretical model, which introduces a number of possibilities for shocks leading to an increase in real activity.

Formation of Stock Market Expectations

by Georges Prat

This article analyzes how "experts" (businessmen, economists and bankers) form their expected changes in the industrial share price index. Expectations are measured by the "consensus" revealed by opinion polls made by J. Livingston in June and December of each year from 1956 to 1989.

After showing that these expectations are not in line with the general rationality criteria, an analysis is made of the classic adaptive, extrapolative and regressive expectation processes (based on limited past information for the variable studied). Although each of the three basic processes is invalidated when considered separately, it is shown that approximately 40% of the expected share-price changes can be "explained" by "combining" these three processes in a LIERAM (Limited Information, Extrapolative, Regressive and Adaptive Model), whereas the figure rises to 95% for expected inflation when using the same LIERAM.

These comparative results urge an examination of the hypothesis according to which experts' expectations are determined in the context of the share evaluation model (EM), which implicitly uses an expected value for share prices. The LIERAM and EM appear to be complementary, but together are only able to "explain" half of the stock market expectations.

Risk Management by Credit Establishments

by Jean Cordier, Pascal Jacquinot and Dominique Plihon

Over the last ten years, the banking environment has been extensively modified by the liberalization and modernization of the French financial system. Moreover, sharper economic and financial fluctuations have increased the risks faced by banks. In spite of this situation and the growing share taken by market operations, the fact remains that the financial structure of French banks is still largely dictated by a traditional banking intermediation logic. The customary context of the banking firm in monopolistic competition remains suitable for modelling this sector. It should, however, be enhanced to take account of active risk management by banks. In order to cover the risks generated by operations with their clientele, banks are notably driven to define their long-term resource issue policy in an endogenous manner while taking account of the relative costs. Furthermore, they are careful not to allocate an overly large share of their equity capital to share acquisitions.

Corporate Financial Policy and a Complete System of Factor Supply and Demand

by Camille Bronsard, Pierre Ouellette and Lise Salvas-Bronsard

This article presents a joint axiomatization of technology, expectations and contractual links between firms and their shareholders to draw a complete system of factor supply and demand including financial assets. This system is based on the temporary context using a suitable Hotelling lemma. It is shown that equivalence relations exist between the characteristics of expectation functions, on the one hand, and the relation between the profit function and the net supply functions just as with the Modigliani-Miller theorem on the other hand.

Theoretical and Simulated Pseudo Maximum Likelihood Applied to Disequilibrium Models

by Riadh Ben Jelili, Salima Hamouche and Ferhat Mihoubi

This methodological note takes an example to explain the use of the theoretical and simulated pseudo maximum likelihood estimation method. This relatively flexible method can be applied to a wide range of static and dynamic non-linear models. It provides highly satisfactory estimates at a low calculation cost. Essentially non-linear disequilibrium models illustrate the value of such a procedure.