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Authors use the framework of Adolfson, Laseen Linde and Villani

This is a model of a large open economy

Estimated for the Euro area.

Very complex: large open economy model more complex than a small open economy or large closed economy

Smets and Wouters estimated closed economy models for USA and Euro Area.

This model would be appropriate for Euro Area, USA and Japan.

But is it needed for the Philippines?
Plenty of models of small open economies, eg. Central Bank of Chile, Mendoza

Is it necessary to assume stickiness in pricing of export goods

Is not the Philippines a price taker in export markets?

Is Pricing to Market or Local Currency Pricing also realistic for Philippines?

Are investment goods mostly imported?
Focus of the paper in on the role of remittances.
Clearly these play a major role
No discussion of stabilization can ignore this phenomenon
Focus should be on the household budget constraint
Is there a need to model variable capital utilization?
Other empirical issue: how sticky are wages?
Empirical Facts

- Review of empirical literature
- What are the key stylized facts relating remittances to the key cyclical properties of the economy?
- What are the statistical properties of the remittances?
- How can a DSGE model help us to make sense of these facts and provide better policy guidance?
- Not sure we need to differentiate labor supply between traded and non traded goods. Justify.
- Three types of remittances to the household.
- One type procyclical with host country, another counter-cyclical with receiving country, another from a rational investor.
- What of household hold: who goes abroad? More can be done at the household optimization.
Calibration

- Idea would be to calibrate parameters which affect the steady state.
- Estimate parameters which affect dynamics and the stochastic processes.
- Model can also be simulated based on calibrated parameters and guesses for the other parameters.
- Good way to see what stylized facts the model can mimick without resorting to estimation.
Estimation

- Besides DSGE, there is also the option of DSGE/VAR estimation.
- This will enable us to see how well the DSGE performs, relative to a VAR.
- For empirical validation, one can examine how well the model generated volatilities and correlations (relative to GDP) compare with corresponding statistics of actual data.
- Besides the impulse response, I would also suggest conditional variance decomposition and historical decompositions. Certain shocks may be more important at specific times than at other times.
- Another test would be to see how well the smoothed shocks of the model correlate with the observed variables of the model. Ideally they should be exogenous.
Suggestions

- Simplify model and put in a banking sector.
- Dealing with remittances may involve non-traditional monetary policy.
- How vulnerable is the banking sector to a sharp unexpected change in remittances?
- What counterfactual policies can be put in place to offset such shocks?