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ResearchUpdate

Research and Statistics Group www.newyorkfed.org/research

James J. McAndrews and Simon M. Potter Are Named Co-Directors of Research

The Research and Statistics Group is pleased to announce that the Bank's Board of Directors has appointed James J. McAndrews and Simon M. Potter co-directors of research and executive vice presidents. Previously, Jamie and Simon were associate directors of research.

Jamie, director of financial research, joined the Bank in 1997. Previously, he was a senior economist and research advisor at the Federal Reserve Bank of Philadelphia. He has served as a consulting economist to the Bank of England, the Reserve Bank of Australia, the Swedish Riksbank, the Bank of Japan, and the World Bank. Jamie is also a fellow of the Wharton Financial Institutions Center.

Jamie's research focuses on the economics of money and payments, monetary policy implementation, and market liquidity. Recent work has appeared in the *Review of Economics and Statistics*, the *Journal of Monetary Economics*, the *Journal of Banking and Finance*, and the *Journal of Money, Credit, and Banking*. Jamie holds a B.A. and Ph.D. in economics from the University of Iowa.

Simon, director of economic research, has been with the New York Fed since 1998. Previously, Simon taught at UCLA, Johns Hopkins, NYU, and Princeton. He is the recipient of National Science Foundation awards and has served on the editorial boards of several academic journals.

Simon has written extensively on nonlinear dynamics over the business cycle, and his current research concentrates on forecasting the probability of recessions.

Also in this issue…

Recently, he has published in the *Review of Economic Studies*, the *Journal of Empirical Finance*, and the *International Economic Review*.

Simon holds a B.A. in philosophy, politics, and economics and an M.Phil. in economics from Oxford University, and a Ph.D. in economics from the University of Wisconsin at Madison. ■

Study Describes Use of DSGE Models in Policy Analysis by Examining 2004 Pickup in U.S. Inflation

In recent years, there has been a significant evolution in the formulation and communication of monetary policy by central banks. Many banks now present their economic outlook and policy strategies to the public in a more formal way, a process that uses modern analytical tools and advanced econometric methods in forecasting and policy simulations. The development of dynamic stochastic general equilibrium, or DSGE, models has played a major role in this process. These models, which emphasize the dependence of current choices on expected future outcomes, are familiar to policymakers and academics—but they are not well known to the public.

A study forthcoming in the *Economic Policy Review* seeks to broaden the public's understanding of these important analytical tools ("Policy Analysis Using DSGE Models: An Introduction"). Authors Argia M. Sbordone, Andrea Tambalotti, Krishna Rao, and Kieran Walsh introduce the basic structure, logic, and application of DSGE models and offer a simple illustration of how an estimated model in this class can be used to answer specific monetary policy questions.

Using a simplified, small-scale DSGE specification, designed to account for three key macroeconomic variables—GDP growth, core inflation, and the federal funds rate—the authors analyze the pickup in inflation in the United States in the first half of 2004. Inflation levels, which were close to 1 percent at the beginning of 2003, climbed to values steadily above 2 percent through the end of 2008.

The exercise suggests that a significant portion of the inflation acceleration was attributable to a change in inflation expectations, which the model links to an increase in the private sector's perception of the Federal Reserve's implicit inflation target. The main lesson to be learned from the exercise, observe the authors, is that "the most effective approach to controlling inflation is through the management of expectations, rather than through actual movements of the policy instrument." The lesson is consistent with the large amount of private sector attention and speculation that usually surrounds central bankers' pronouncements on their likely future actions.

The article is available at www.newyorkfed.org/research/epr/forthcoming/1003sbor.html.

Upstate New York's Housing Markets Have Sidestepped the U.S. Boom-Bust Cycle

The United States has experienced a significant boom and bust in real estate activity in the past decade. A new study, however, concludes that upstate New York has been largely insulated from the home-price volatility experienced in other parts of the country during the recession.

In "Bypassing the Bust: The Stability of Upstate New York's Housing Markets during the Recession" (*Current Issues in Economics and Finance*, vol. 16, no. 3), authors Jaison R. Abel and Richard Deitz assess the performance of upstate New York's housing markets during the most recent residential real estate cycle and compare the pattern of real estate activity for the region with patterns for other U.S. metropolitan areas. They also examine the prevalence of nonprime mortgage lending—the riskiest segment of the residential mortgage market—and compare the regional penetration and performance of these loans with national penetration and performance.

The study focuses on nine major metro areas upstate: Albany, Binghamton, Buffalo, Elmira, Glens Falls, Ithaca, Rochester, Syracuse, and Utica.

The authors find that upstate's housing markets have been fairly stable during the recession, with many metro areas outperforming the nation. During the U.S. housing boom of 2000-06, home prices in Binghamton, Buffalo, Elmira, Rochester, Syracuse, and Utica did not appreciate as rapidly as the national average, although prices in Albany, Glens Falls, and Ithaca outpaced it. Since then, home prices in every upstate metro area have risen faster, or fallen more slowly, than the national average. Notably, Buffalo, Rochester, and Syracuse all ranked in the top 10 percent of metro areas in terms of home price appreciation in 2009, with Buffalo ranking sixth overall.

Abel and Deitz also find that the penetration of nonprime loans in upstate New York was far less significant than in other parts of the country, particularly when compared with metropolitan areas that experienced a housing bust. In addition, these loans have performed better upstate than they have nationally. Generally, metro areas with a higher penetration of nonprime loans by 2006—when activity peaked—experienced faster house price increases, but also suffered the most significant declines once the reversal began. As a result, a larger number of the nonprime loans that originated in these areas have entered delinquency or foreclosure. The authors observe that upstate's relatively low incidence of nonprime mortgages and the better-than-average performance of these loans contributed to the area's stability.

The article is available at www.newyorkfed.org/research/current_issues/ci16-3.html.

Most Downloaded Publications

Listed below are the most sought after Research Group articles and papers from the New York Fed's website and from the Bank's page on the Social Science Research Network site (www.ssrn.com/link/FRB-New-York.html).

New York Fed website, first-quarter 2010:

- "Understanding the Securitization of Subprime Mortgage Credit," by Adam B. Ashcraft and Til Schuermann (*Staff Reports*, no. 318, March 2008) – 3,414 downloads
- "Is the International Role of the Dollar Changing?" by Linda S. Goldberg (*Current Issues in Economics and Finance*, vol. 16, no. 1, January 2010) – 3,345 downloads
- "Policy Perspectives on OTC Derivatives Market Infrastructure," by Darrell Duffie, Ada Li, and Theo Lubke (*Staff Reports*, no. 424, January 2010) – 3,264 downloads

SSRN website, first-quarter 2010:

- "Understanding the Securitization of Subprime Mortgage Credit," by Adam B. Ashcraft and Til Schuermann (*Staff Reports*, no. 318, March 2008) – 856 downloads
- "What Can We Learn from Privately Held Firms about Executive Compensation?" by Rebel A. Cole and Hamid Mehran (*Staff Reports*, no. 314, January 2008) – 367 downloads
- "Broker-Dealer Risk Appetite and Commodity Returns," by Erkko Etula (*Staff Reports*, no. 406, November 2008) – 225 downloads

For lists of top-ten downloads, visit www.newyorkfed.org/research/top_downloaded/index.html.

Publications and Papers

The Research and Statistics Group produces a wide range of publications:

- *The Economic Policy Review*—a policy-oriented journal focusing on economic and financial market issues.
- *EPR Executive Summaries*—online versions of selected *Economic Policy Review* articles, in abridged form.
- *Current Issues in Economics and Finance*—concise studies of topical economic and financial issues.
- *Second District Highlights*—a regional supplement to *Current Issues*.
- *Staff Reports*—technical papers intended for publication in leading economic and finance journals, available only online.
- *Publications and Other Research*—an annual catalogue of our research output.

New Titles in the *Staff Reports* Series

The following new staff reports are available at www.newyorkfed.org/research/ staff_reports.

MACROECONOMICS AND GROWTH

No. 421, January 2010
Monetary Cycles, Financial Cycles, and the Business Cycle
Tobias Adrian, Arturo Estrella, and Hyun Song Shin

One of the most robust stylized facts in macroeconomics is the forecasting power of the term spread for future real activity. The economic rationale for this forecasting power usually appeals to expectations of future interest rates, which affect the slope of the term structure. This paper proposes a possible causal mechanism for the forecasting power of the term spread, deriving from the balance sheet management of financial intermediaries. When monetary tightening is associated with a flattening of the term spread, it reduces net interest margin, which in turn makes lending less profitable, leading to a contraction in the supply of credit. The authors provide empirical support for this hypothesis, thereby linking monetary cycles, financial cycles, and the business cycle.

No. 422, January 2010
Financial Intermediation, Asset Prices, and Macroeconomic Dynamics
Tobias Adrian, Emanuel Moench, and Hyun Song Shin

Fluctuations in the aggregate balance sheets of financial intermediaries provide a window on the joint determination of asset prices and macroeconomic aggregates. The authors document that financial intermediary balance sheets contain strong predictive power for future excess returns on a broad set of equity, corporate, and Treasury bond portfolios. They also show that the same intermediary variables that predict excess returns forecast real economic activity and various measures of inflation. The study's findings point to the importance of financing frictions in macroeconomic dynamics and provide quantitative guidance for preemptive macroprudential and monetary policies.

No. 425, January 2010
The Measurement of Rent Inflation
Jonathan McCarthy and Richard W. Peach

Shelter has a large weight in the CPI and in the personal consumption expenditures deflator, resulting in substantial scrutiny of how tenant rent and owners' equivalent rent are measured in these price indexes. This study describes how the Bureau of Labor Statistics (BLS) estimates tenant rent and owners' equivalent rent. McCarthy and Peach then estimate alternative inflation rates for tenant rent and owners' equivalent rent based on American Housing Survey data, following BLS methodology as closely as possible. Their alternative tenant rent inflation series is generally consistent with the corresponding BLS series. However, their alternative owners' equivalent rent inflation series is consistently lower than the corresponding BLS series by an amount large enough to have a significant effect on the overall inflation rate. This result is driven by the inverse relationship between rent inflation and the level of monthly housing cost evident in the American Housing Survey data.

No. 428, January 2010
Macro Risk Premium and Intermediary Balance Sheet Quantities
Tobias Adrian, Emanuel Moench, and Hyun Song Shin

The macro risk premium measures the threshold return for real activity that receives funding from savers. This paper bases its argument on the relationship between the macro risk premium and the growth of financial intermediaries' balance sheets. The spare capacity of their balance sheets determines the intermediaries' risk appetite, which in turn determines the real projects that receive funding and, hence, the supply of credit. Monetary policy affects risk appetite by changing the ability of intermediaries to leverage their capital. The authors estimate the time-varying risk appetite of financial intermediaries for the United States, Germany, the United Kingdom, and Japan, and study the joint dynamics of risk appetite using macroeconomic aggregates for the United States. They argue that risk appetite is an important indicator of monetary conditions.

No. 433, February 2010
The Paradox of Toil
Gauti Eggertsson

This paper proposes a new paradox: the paradox of toil. Suppose everyone wakes up one day and decides they want to work more. What happens to aggregate employment? Eggertsson shows that, under certain conditions, aggregate employment falls; that is, there is less work in the aggregate because everyone wants to work more. The conditions for the paradox to apply are that the short-term nominal interest rate is zero and there are deflationary pressures and output contraction, much as during the Great Depression in the United States and, perhaps, the 2008 financial crisis in large parts of the world. The paradox of toil is tightly connected to the Keynesian idea of the paradox of thrift. Both are examples of a *fallacy of composition.*

No. 434, February 2010
Correlated Disturbances and U.S. Business Cycles
Vasco Cúrdia and Ricardo Reis

The dynamic stochastic general equilibrium (DSGE) models used to study business cycles typically assume that exogenous disturbances are independent first-order autoregressions. This paper relaxes this tight and arbitrary restriction by allowing for disturbances that have a rich contemporaneous and dynamic correlation structure. The authors' first contribution is a new Bayesian econometric method that uses conjugate conditionals to allow for feasible and quick estimation of DSGE models with correlated disturbances. Their second contribution is a reexamination of U.S. business cycles. They find that allowing for correlated disturbances resolves some conflicts between estimates from DSGE models and those from vector autoregressions and that a key missing ingredient in the models is countercyclical fiscal policy. According to the authors' estimates, government spending and technology disturbances play a larger role in the business cycle than previously ascribed, while changes in markups are less important.

No. 435, February 2010
Labor-Dependent Capital Income Taxation That Encourages Work and Saving
Sagiri Kitao

Kitao proposes a simple mechanism of capital taxation that is negatively correlated with labor supply. Using a life-cycle model of heterogeneous agents, she shows that this tax scheme provides a strong work incentive when households possess large assets and high productivity later in the life cycle, when they would otherwise work less. This reformed system also adds to the saving motive and raises aggregate capital. Moreover, the increased economic activities expand the tax base, and the revenue-neutral reform results in a lower average tax rate. The paper finds that this tax scheme improves long-run welfare and that the majority of current generations would experience a welfare gain from a transition to the reformed system.

No. 436, March 2010
Social Security, Benefit Claiming, and Labor Force Participation: A Quantitative General Equilibrium Approach
Selahattin İmrohoroğlu and Sagiri Kitao

İmrohoroğlu and Kitao use a general equilibrium model of overlapping generations that incorporates endogenous saving, labor force participation, work hours, and Social Security benefit claims to study the impact of three Social Security reforms: 1) a reduction in benefits and payroll taxes; 2) an increase in the earliest retirement age, to sixty-four from sixty-two; and 3) an increase in the normal retirement age, to sixty-eight from sixty-six. They find that a 50 percent cut in the scope of the current system significantly raises asset holdings and the labor input, primarily through higher participation of older workers, and reduces the shortfall of the Social Security budget through a reduction in early claiming. Increasing the normal retirement age also raises saving and the labor supply, but the effects are smaller. Postponing the earliest retirement age has only a negligible effect.

No. 440, March 2010
Productivity and the Density of Human Capital
Jaison R. Abel, Ishita Dey, and Todd M. Gabe

The authors estimate a model of urban productivity in which the agglomeration effect of density is enhanced by a metropolitan area's stock of human capital. Estimation accounts for potential biases due to the endogeneity of density and industrial composition effects. Using new information on output per worker for U.S. metropolitan areas along with a measure of density that accounts for the spatial distribution of population, they find that a doubling of density increases productivity by 2 to 4 percent. Consistent with theories of learning and knowledge spillovers in cities, the authors demonstrate that the elasticity of average labor productivity with respect to density increases with human capital. Metropolitan areas with a human capital stock one standard deviation below the mean realize no productivity gain, while doubling density in metropolitan areas with a human capital stock one standard deviation above the mean yields productivity benefits that are about twice the average.

INTERNATIONAL

No. 430, February 2010
Loss Aversion, Asymmetric Market Comovements, and the Home Bias
Kevin Amonlirdviman and Carlos Carvalho

The different utility impact of wealth gains and losses leads loss-averse investors to behave similarly to investors with high risk aversion. So shouldn't these agents perceive larger gains from international diversification than standard expected-utility preference agents with plausible levels of risk aversion? They might not, because comovements in international stock markets are asymmetric: Correlations are higher in market downturns than in upturns. This asymmetry dampens the gains from diversification relatively more for loss-averse investors. Amonlirdviman and Carvalho analyze the portfolio problem of such an investor who has to choose between home and foreign equities in the presence of asymmetric comovement in returns. Perhaps surprisingly, in the context of the home bias puzzle they find that the loss-averse investors behave similarly to those with standard expected-utility preferences and plausible levels of risk aversion.

MICROECONOMICS

No. 432, February 2010
Subprime Mortgage Lending in New York City: Prevalence and Performance
Ebiere Okah and James Orr

Subprime mortgage lending expanded in New York City between 2004 and mid-2007, and delinquencies on these subprime loans have been rising sharply. This study uses a rich, loan-level data set of the city's outstanding subprime loans as of January 2009 to describe the main features of this lending and to model the performance of these loans. These subprime loans represent a smaller share of total housing units in the city than is true nationwide. In addition, they are found to be clustered in neighborhoods where average borrower credit quality is low and, unlike prime mortgage loans, where African-Americans and Hispanics constitute relatively large shares of the population. The authors estimate a model of the likelihood that these loans will become seriously delinquent and find a significant role for credit quality of borrowers, debt-to-income and loan-to-value ratios at the time of loan origination, and estimates of the loss of home equity.

BANKING AND FINANCE

No. 423, January 2010
The Federal Reserve's Commercial Paper Funding Facility
Tobias Adrian, Karin Kimbrough, and Dina Marchioni

The Federal Reserve created the Commercial Paper Funding Facility (CPFF) in the midst of severe disruptions in money markets following the bankruptcy of Lehman Brothers on September 15, 2008. The CPFF finances the purchase of highly rated unsecured and asset-backed commercial paper from eligible issuers via primary dealers. The facility is a liquidity backstop to U.S. issuers of commercial paper, and its creation was part of a range of policy actions undertaken by the Federal Reserve to provide liquidity to the financial system. This paper documents aspects of the financial crisis relevant to the creation of the CPFF, reviews the operation of the CPFF, discusses use of the facility, and draws conclusions for lender-of-last-resort facilities in a market-based financial system.

No. 424, January 2010
Policy Perspectives on OTC Derivatives Market Infrastructure
Darrell Duffie, Ada Li, and Theo Lubke

In the wake of the recent financial crisis, over-the-counter (OTC) derivatives have been blamed for increasing systemic risk. Although OTC derivatives were not a central cause of the crisis, the complexity and limited transparency of the market reinforced the potential for excessive risk taking, as regulators did not have a clear view of how OTC derivatives were being used. This paper discusses how the New York Fed and other regulators could improve weaknesses in the OTC derivatives market through stronger oversight and better regulatory incentives for infrastructure improvements to reduce counterparty credit risk and bolster market liquidity, efficiency, and transparency. Used responsibly with these reforms, over-the-counter derivatives can provide important risk management and liquidity benefits to the financial system.

No. 426, January 2010
Repo Market Effects of the Term Securities Lending Facility
Michael J. Fleming, Warren B. Hrung, and Frank M. Keane

The Term Securities Lending Facility (TSLF) was introduced by the Federal Reserve to promote liquidity in the financing markets for Treasury and other collateral. The authors evaluate one aspect of the program—the extent to which it has narrowed repo spreads between Treasury collateral and less liquid collateral. They find that TSLF operations have precipitated a significant narrowing of repo spreads. More refined tests indicate the market conditions and types of operations associated with the program's effectiveness. Various additional tests, including a split-sample test, suggest that the authors' findings are robust.

No. 427, January 2010
Performance Maximization of Actively Managed Funds
Paolo Guasoni, Gur Huberman, and Zhenyu Wang

Ratios that indicate the statistical significance of a fund's alpha typically appraise its performance. A growing literature suggests that even in the absence of any ability to predict returns, holding options positions on the benchmark assets or trading frequently can significantly enhance performance ratios. This paper derives the performance-maximizing strategy—a variant of buy-write—and the least upper bound on such performance enhancement, thereby showing that if common equity indexes are used as benchmarks, the potential performance enhancement from trading frequently is usually negligible. The enhancement from holding options can be substantial if the implied volatilities of the options are higher than the volatilities of the benchmark returns.

No. 429, January 2010
Central Bank Dollar Swap Lines and Overseas Dollar Funding Costs
Linda S. Goldberg, Craig Kennedy, and Jason Miu

Following a scarcity of dollar funding available internationally to banks and financial institutions, in December 2007 the Federal Reserve began to establish or expand Temporary Reciprocal Currency Arrangements with fourteen foreign central banks. These central banks had the capacity to use these swap facilities to provide dollar liquidity to institutions in their jurisdictions. This paper presents the developments in the dollar swap facilities through the end of 2009. The facilities were a response to dollar funding shortages outside the United States during a period of market dysfunction. Formal research, as well as more descriptive accounts, suggests that the dollar swap lines among central banks were effective at reducing the dollar funding pressures abroad and stresses in money markets. The central bank dollar swap facilities are an important part of the toolbox for dealing with systemic liquidity disruptions.

No. 431, February 2010
Financial Amplification Mechanisms and the Federal Reserve's Supply of Liquidity during the Crisis
Asani Sarkar and Jeffrey Shrader

The small decline in the value of mortgage-related assets relative to the large total losses associated with the financial crisis suggests the presence of financial amplification mechanisms, which allow relatively small shocks to propagate through the financial system. Sarkar and Shrader review the literature on financial amplification mechanisms and discuss the Federal Reserve's interventions during different stages of the crisis in light of this literature. They interpret the Fed's early-stage liquidity programs as working to dampen balance sheet amplifications arising from the positive feedback between financial constraints and asset prices. By comparison, the Fed's later-stage crisis programs take into account adverse-selection amplifications that operate via increases in credit risk and the externality imposed by risky borrowers on safe ones. Finally, the authors provide new empirical evidence that increases in the Federal Reserve's liquidity supply reduce interest rates during periods of high liquidity risk. Their analysis has implications for the impact on market prices of a potential withdrawal of liquidity supply by the Fed.

No. 437, March 2010
Stressed, Not Frozen: The Federal Funds Market in the Financial Crisis
Gara Afonso, Anna Kovner, and Antoinette Schoar

This paper examines the impact of the financial crisis of 2008, specifically the bankruptcy of Lehman Brothers, on the federal funds market. The authors find that amounts and spreads became more sensitive to a borrowing bank's characteristics, lending rates increased, and banks became more restrictive in their choice of counterparties. The market did not seem to expand to meet the increased demand predicted by the drop in other bank funding markets. Afonso, Kovner, and Schoar examine discount window borrowing as a proxy for unmet fed funds demand and find that the fed funds market is not indiscriminate. As expected, borrowers who access the discount window have a lower return on assets. On the lender side, the characteristics of the lending bank do not seem to significantly affect the amount of interbank loans it makes. In particular, the authors do not find that worse-performing banks began hoarding liquidity and indiscriminately reducing their lending.

No. 438, March 2010
Liquidity-Saving Mechanisms in Collateral-Based RTGS Payment Systems
Marius Jurgilas and Antoine Martin

This paper studies banks' incentives for choosing the timing of their payment submissions in a collateral-based real-time gross settlement payment system and the way in which these incentives change with the introduction of a liquidity-saving mechanism (LSM). Jurgilas and Martin show that an LSM allows banks to economize on collateral while also providing incentives to submit payments earlier. The reason is that, in their model, an LSM allows payments to be matched and offset, helping to settle payment cycles in which each bank must receive a payment that provides sufficient funds to allow the settlement of its own payment. In contrast to fee-based systems, for which Martin and McAndrews (2008a) show that introducing an LSM can lead to lower welfare, in the authors' model welfare is always higher with an LSM in a collateral-based system.

No. 439, March 2010
The Changing Nature of Financial Intermediation and the Financial Crisis of 2007-09
Tobias Adrian and Hyun Song Shin

The financial crisis of 2007-09 highlighted the changing role of financial institutions and the growing importance of the "shadow banking system," which grew out of the securitization of assets and the integration of banking with capital market developments. This trend was most pronounced in the United States, but it also had a profound influence on the global financial system as a whole. In a market-based financial system, banking and capital market developments are inseparable, and funding conditions are tied closely to fluctuations in the leverage of market-based financial intermediaries. Balance sheet growth of market-based financial intermediaries provides a window on liquidity by indicating the availability of credit, while contractions of balance sheets have tended to precede the onset of financial crises. The authors describe the changing nature of financial intermediation in the market-based financial system, chart the course of the recent financial crisis, and outline the policy responses that have been implemented by the Federal Reserve and other central banks.

No. 441, March 2010
Large-Scale Asset Purchases by the Federal Reserve: Did They Work?
Joseph Gagnon, Matthew Raskin, Julie Remache, and Brian Sack

Since December 2008, the Federal Reserve's traditional policy instrument, the target federal funds rate, has been effectively at its lower bound of zero. In order to further ease the stance of monetary policy as the economic outlook deteriorated, the Federal Reserve purchased substantial quantities of assets with medium and long maturities. The authors explain how these purchases were implemented and discuss the mechanisms through which they can affect the economy. They present evidence that the purchases led to economically meaningful and long-lasting reductions in longer term interest rates on a range of securities, including securities that were not included in the purchase programs. These reductions in interest rates primarily reflect lower risk premiums, including term premiums, rather than lower expectations of future short-term interest rates. ■

Recently Published

Stefano Eusepi. 2010. "Central Bank Communication and the Liquidity Trap." *Journal of Money, Credit, and Banking* 42, no. 2-3 (March-April): 373-97.

Andrea Ferrero. 2010. "Current Account Dynamics and Monetary Policy," with Mark Gertler and Lars E. O. Svensson. In Jordi Galí and Mark Gertler, eds., *International Dimensions of Monetary Policy*, 199-244. NBER conference volume. Chicago: University of Chicago Press.

Anna Kovner. 2010. "Buy Local? The Geography of Venture Capital," with Henry Chen, Paul Gompers, and Josh Lerner. *Journal of Urban Economics* 67, no. 1 (January): 90-102.

Hamid Mehran and Stavros Peristiani. 2010. "Financial Visibility and the Decision to Go Private." *Review of Financial Studies* 23, no. 2 (February): 519-47.

Simon Potter. 2010. "Modeling the Dynamics of Inflation Compensation," with Markus Jochmann and Gary Koop. *Journal of Empirical Finance* 17, no. 1 (January): 157-67.

Robert Rich and Joseph Tracy. 2010. "The Relationships among Expected Inflation, Disagreement, and Uncertainty: Evidence from Matched Point and Density Forecasts." *Review of Economics and Statistics* 92, no. 1 (February): 200-7.

Argia Sbordone. 2010. "Globalization and Inflation Dynamics: The Impact of Increased Competition." In Jordi Galí and Mark Gertler, eds., *International Dimensions of Monetary Policy*, 547-79. NBER conference volume. Chicago: University of Chicago Press. ■

Papers Presented by Economists in the Research and Statistics Group

"Productivity and the Density of Human Capital," Jaison Abel. Southern Regional Science Association annual meeting, Washington, D.C., March 27. With Ishita Dey and Todd Gabe.

"Precautionary Demand and Liquidity in Payment Systems," Gara Afonso. Bank of Mexico seminar, Mexico City, Mexico, March 4. With Hyun Song Shin.

"Aggregation and the PPP Puzzle in a Sticky-Price Model," Carlos Carvalho. Harvard University International Economics Workshop, Cambridge, Massachusetts, February 24. With Fernanda Nechio.

"Estimating the Cross-Sectional Distribution of Price Stickiness from Aggregate Data," Carlos Carvalho. American Economic Association–Allied Social Science Associations annual meeting, Atlanta, Georgia, January 5. With Niels Dam.

"Do Charter Schools Crowd Out Private Enrollment?" Rajashri Chakrabarti. American Economic Association–Allied Social Science Associations annual meeting, Atlanta, Georgia, January 4. With Joydeep Roy.

"Effect of Constraints on Tiebout Competition," Rajashri Chakrabarti. American Education Finance Association conference, Richmond, Virginia, March 19. With Joydeep Roy. Also presented at the NBER Fiscal Federalism Conference, San Diego, California, March 27.

"The Effects of No Child Left Behind on Public Schools," Rajashri Chakrabarti. American Education Finance Association conference, Richmond, Virginia, March 20.

"The Great Escape? A Quantitative Investigation of the Fed's Nonstandard Policies," Marco Del Negro, Gauti Eggertsson, and Andrea Ferrero. With Nobuhiro Kiyotaki. Presented by Ferrero at a Bank of Portugal seminar, Lisbon, Portugal, February 17, and at the NBER Program on Monetary Economics meeting, held at the Federal Reserve Bank of New York, New York City, March 5. Presented by Del Negro at the Federal Reserve Bank of San Francisco Conference on Financial Market Imperfections and Macroeconomics, San Francisco, California, March 5.

"Repo Market Effects of the Term Securities Lending Facility," Michael Fleming. American Economic Association–Allied Social Science Associations annual meeting, Atlanta, Georgia, January 3.

"Central Bank Dollar Swap Lines and Overseas Dollar Funding Costs," Linda Goldberg. American Economic Association–Allied Social Science Associations annual meeting, Atlanta, Georgia, January 4. With Craig Kennedy and Jason Miu.

"Global Banks and International Shock Transmission: Evidence from the Crisis," Linda Goldberg. International Monetary Fund–Banque de France Conference on Economic Linkages, Spillovers, and the Financial Crisis, Paris, France, January 28. With Nicola Cetorelli.

"Historical Evolution of International Banking," Linda Goldberg. Presentation to the Working Group of the Committee on the Global Financial System, Bank for International Settlements, Frankfurt, Germany, March 12.

"Micro, Macro, and Strategic Forces in International Trade Invoicing," Linda Goldberg. Fifth Annual Workshop on Global Interdependence, cosponsored by the Centre for Economic Policy Research and Deutsche Bundesbank, Eltville, Germany, March 12. With Cédric Tille.

"Bailouts and Financial Fragility," Todd Keister. IESE Business School Workshop on Industrial Organization and Banking, University of Navarra, Barcelona, Spain, March 9.

"Banking Panics and Policy Responses," Todd Keister. European University Institute Macroeconomics Workshop, Florence, Italy, January 25.

"A Life Cycle Model of Trans-Atlantic Employment Experiences," Sagiri Kitao. American Economic Association–Allied Social Science Associations annual meeting, Atlanta, Georgia, January 4. With Lars Ljungqvist and Thomas Sargent.

"Compensation and Leverage," Hamid Mehran. University of Cambridge seminar, Cambridge, United Kingdom, January 21.

"Rollover Risk during the Crisis," Asani Sarkar. American Economic Association–Allied Social Science Associations annual meeting, Atlanta, Georgia, January 3. With Angelo Ranaldo.

"MBS Ratings and the Mortgage Credit Boom," James Vickery. American Economic Association–Allied Social Science Associations annual meeting, Atlanta, Georgia, January 4. With Adam Ashcraft and Paul Goldsmith-Pinkham. Also presented at a Kenan-Flagler School of Business seminar, University of North Carolina at Chapel Hill, Chapel Hill, North Carolina, February 19, and a Haas School of Business seminar, University of California at Berkeley, Berkeley, California, February 24.

"Do Female Faculty Influence Female Students' Choice of College Major, and Why?" Basit Zafar. American Economic Association–Allied Social Science Associations annual meeting, Atlanta, Georgia, January 4. With Yi Qian. ■

Research and Statistics Group Publications and Papers: January-March 2010

Publications are available at www.newyorkfed.org/research/publication_annuals/index.html.

ECONOMIC POLICY REVIEW

Forthcoming

Policy Analysis Using DSGE Models: An Introduction
Argia M. Sbordone, Andrea Tambalotti, Krishna Rao, and Kieran Walsh

Special Issue: Central Bank Liquidity Tools and Perspectives on Regulatory Reform

Central Bank Liquidity Tools
Opening Remarks
Patricia C. Mosser

Conference Overview and Summary of Proceedings
Matthew Denes, Daniel Greenwald, Nicholas Klagge, Ging Ce Ng, Jeffrey Shrader, Michael Sockin, and John Sporn

Central Bank Tools and Liquidity Shortages
Stephen G. Cecchetti and Piti Disyatat

Provision of Liquidity through the Primary Credit Facility during the Financial Crisis: A Structural Analysis
Erhan Artuç and Selva Demiralp

Perspectives on Regulatory Reform
Informational Easing: Improving Credit Conditions through the Release of Information
Matthew Pritsker

Systemic Risk and Deposit Insurance Premiums
Viral V. Acharya, João A. C. Santos, and Tanju Yorulmazer

CURRENT ISSUES IN ECONOMICS AND FINANCE, VOL. 16

No. 1, January 2010
Is the International Role of the Dollar Changing?
Linda S. Goldberg

No. 2, February 2010
The Unemployment Gender Gap during the 2007 Recession
Ayşegül Şahin, Joseph Song, and Bart Hobijn

No. 3, March 2010
Bypassing the Bust: The Stability of Upstate New York's Housing Markets during the Recession
Jaison R. Abel and Richard Deitz

STAFF REPORTS

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