
ECON 4160, Spring term 2015. Addendum to
Lecture 11
What next?

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Structural breaks I

- ▶ Read Chapter 20 in HN
 - ▶ Structural breaks refer to changes in parameter values.
 - ▶ Tested more easily in time series data than in cross-sections by utilizing the natural ordering of time series.
- ▶ We have of course referred to structural breaks in our treatment of *exogeneity* (which therefore also is central in Ch 20)
- ▶ In particular, the combined results of a structural break in a marginal model, and invariance in the conditional model (super exogeneity).

Structural breaks II

- ▶ Structural breaks and (lack of) invariance have important implications for main research purposes:
- ▶ *Forecasting*: In particular damaged by location shifts (HN Ch 20,2.1 and 20.3). We return to this in Lecture 13,
- ▶ *Policy analysis*: See HN Ch 20.4 and Lecture note #5 (Lucas critique)
 - ▶ Testing of validity of structural equations (i.e. economic theory), see Ch. 20.5 and 20.6
 - ▶ and a supplementary slide set that will be posted for reference (for example if you want to consider this as a topic of a master thesis for example)

The Black Swan and structural breaks I

- ▶ Following Nassim Talebs books, the black swan has become a metaphor for the unknown.
- ▶ Structural breaks are like a *flock of black swans*:
 - ▶ A single black swan may be “hidden” in the tail of a non-normal (but still symmetric and stationary distribution)
 - ▶ But a flock of black swans can shift the location of the distribution.
 - ▶ A financial crisis, a demographic shock, etc are potentially flocks of black swans
- ▶ Friday next week: David Hendry holds the Haavelmo Lecture.

The Haavelmo Lecture 2015 with Sir David Hendry

Professor Sir David F. Hendry from Nuffield College at Oxford University will present "Deciding between Alternative Approaches in Macroeconomics", in honour of Trygve Haavelmo.

Time and place:

Nov 13, 2015 12:30 PM - 02:00 PM, Auditorium 1, Ground floor, Eilert Sundts hus

[Add to calendar](#)

Abstract:

Macroeconomic time-series data are aggregated, inaccurate, non-stationary, collinear and rarely match theoretical concepts. Macroeconomic theories are incomplete, incorrect and changeable: location shifts invalidate the law of iterated expectations so 'rational expectations' are systematically biased. Empirical macro-econometric models are non-constant and misspecified in numerous ways, so economic policy often has unexpected effects, and macroeconomic forecasts go awry. In place of using just one of the four main methods of deciding between alternative models, theory, empirical evidence, policy relevance and forecasting, we propose nesting 'theory-driven' and 'data-driven' approaches, where theory-models' parameter estimates are unaffected by selection despite searching over rival candidate variables, longer lags, functional forms, and breaks.



Sir David F. Hendry Photo:
Nuffield, Oxford University

Haavelmo Lecture

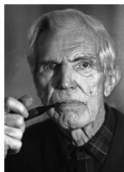


Photo: Bethun

- In the honour of Trygve Haavelmo, Nobel Laureate in Economics 1989
- A biannual event at the Department of Economic

[Read more about Nobel laureate Haavelmo](#)

Other events with Sir Hendry

- Seminar at Statistics Norway:
10 November, 9:30 - 11:30
- Seminar at the Norwegian

Lecture 12 and 13 and seminar 6

- ▶ Claudia will give the two last lectures
- ▶ Lect 12: Structural VARs
They are related to stationary VARs, and the identification of effects of shocks. As she will show, a recursive model of the VAR is one example of a SVAR
- ▶ Lect 13: Forecasting.
Emphasis on important properties of forecasts from dynamic models and in particular the impact of structural breaks
- ▶ RNY will be your guide to Seminar 6.