

Title: Recent Developments in Macroeconometric Modelling for Policy Analysis

Abstract:

In recent years many models used in the policy process have drawn their inspiration from Dynamic Stochastic General Equilibrium (DSGE) models. We follow the evolution of these models from their small academic prototypes to those used in central banks today. This is done by distinguishing four generations of macro models in history. The role of DSGE models has been to provide an increasing use of theory to account for formulations that had been previously introduced in order to provide a better match of model with data. This fact means that the process leading to the current generation of models has been evolutionary rather than revolutionary. However there are some significant differences between the underlying philosophy of recent generations of models and those that preceded them. These involve the fundamental logic of the models, the use of shocks as driving forces, and the methods for estimating the parameters of these models. I survey these differences and comment on some of the issues that have arisen with the current generation which I feel have not been satisfactorily dealt with. I conclude by briefly canvassing the question of whether these models can be used satisfactorily in the policy process.