ADVANCING MACRO FINANCE:
FROM MICRO TO MACRO

Ricardo Reis
LSE

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Micro to macro in the past: first 25-30 years

- Goal: use micro data to pin down structural deep parameters
  - Lucas (1980), Kydland Prescott (1982), Browning, Hansen, Heckman (1999)
- One source of disappointment: isolating the source of variation
  - Example: the frequency of price adjustments.
- Second source of disappointment: heterogeneity and frictions
  - Example: the subjective discount factor
- Third source of disappointment: margins and aggregation
  - Example: the elasticity of labor supply
- Fourth source of disappointment: micro colleagues stopped playing

Micro to macro in the past: last 10-15 years

- Keep pursuing the DSGE program, but enriched by heterogeneity / frictions
  - Theory catching up with data, example ECB new models.
- Use LATE estimates and theory to match those to key parameters
  - Sufficient statistics, example MPC work.
- Use micro data to estimate cross-sectional distributions or moments and calibrate / match to those
  - Models where cross-sectional distributions are equilibrium objects, example Ottonelo Winberry (2020)
- Exploit different levels of aggregation to back out macro effects
  - With theory playing key role on those mappings, example Huber (2018).

Our three speakers this afternoon

- **Simsek: critique of the DSGE approach**
  - Already too big, too unfocussed, hidden biases, not transparent.
  - (But, at some point, need to quantify multiple mechanisms in one setup.)
- **Berger: contrast LATE and moment/calibration approaches**
  - LATE is hard to extrapolate, control groups implausible, at best wide bounds
  - Moment matching allows you to bring theory to tighten bounds
  - (But, of course, tied to a particular theory.)
- **Wieland: discussion of the aggregation approach**
  - Can go after decision elasticities, partial equilibrium effects, general equilibrium interactions.
  - (But requires deft usage of different sources of variation, not often available.)

Challenge for the present and future

- **Macroeconomic model as a laboratory for policy experiments**
  - Using models to predict what will be the effect of a policy on an outcome variable of interest
  - Using models to suggest how to perfect the design of those policies.

- **Looking backward: quantitative easing**
  - Lots of great, well-identified, micro data research using bond prices and quantities
  - But, in 2021, ask: if we buy another $1bn, what will happen to inflation in 2022?
  - Micro data work helps disappointingly little to answer that question.

- **Moving forward: design policies**
  - Fiscal transfers of 2020 were mostly untargeted, cost a gigantic amount
  - Rich heterogeneity should let me achieve same, at much lower cost in future tax distortions