ADVANCING MACRO FINANCE:
FROM MICRO TO MACRO

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8th of October, 2021
Becker-Friedman Institute Conference
University of Chicago (hybrid)
Micro to macro in the past: first 25-30 years

- Goal: use micro data to pin down structural deep parameters

- 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 unfocused, 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 $1 bn, 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