

Lehment, Harmen

Book Review — Digitized Version

[Book Review of] Econometrics of inflationary expectations. Amsterdam, New York . 1981., Lahiri, Kajal: The

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Lahiri, Kajal, *The Econometrics of Inflationary Expectations*. Studies in Monetary Economics, Vol. 7. Amsterdam, New York, Oxford 1981. North-Holland Publishing Company. XXII, 250 pp.

Inflationary expectations have received increasing attention in the recent years. While most studies in this field have been devoted to an analysis of the theoretical aspects of expectations, Lahiri's study focusses on the problems of using expectations in empirical tests of macroeconomic and financial market models.

A central problem of inflationary expectations is that they are not observable. For the United States (to which Lahiri's empirical analysis is restricted), however, a series of "consensus" forecasts is provided by the Livingstone survey, which has been used in several empirical studies as a proxy for inflationary expectations.

In Chapter 1 Lahiri presents a test of different hypotheses about the formation of inflationary expectations by using the Livingstone proxy. He finds that an adaptive-regressive scheme suggested by Frenkel performs better than purely adaptive or extrapolative schemes. It can be criticized, however, that in his test of the adaptive-regressive hypothesis Lahiri uses the expected inflation rate for the next 12 months — a proxy for the expected long-run inflation rate — to explain the expected inflation rate for the next 6 months (both taken from the Livingstone survey). Taking into account that the correlation between these two variables is quite high (.68) the empirical result does not shed much light on the formation of expectations as long as there is no information about the formation of the 12-month expectations. Moreover, the coefficients in the adaptive-regressive equation fluctuate substantially in response to a small change in the number of observations as is shown by a comparison of Tables 1.1. and 4.1.

Using the Livingstone data in a Phillips-type wage equation, Lahiri finds a coefficient for the price expectations variable which is around .40 and, hence, substantially below unity (the value it should take according to the neoclassical hypothesis). One possible reason for this result are errors in the measurement of the expectations variable, i. e., a deviation of the Livingstone data from the actual unobserved expectation data. In order to adjust for this type of error Lahiri assumes that true price expectations are a function of actual and past prices only and uses a two-stage least-squares (2 SLS) method to account for errors in measurement. He finds that the expectations coefficient increases to about .50, thus still remaining substantially below unity. Accounting for the possible errors in the variable, therefore, turns out to be not sufficient to support the neoclassical expectations hypothesis. Moreover, Lahiri's approach must face the objection that his assumption about the formation of true expectations may be fallacious so that his results in respect to the measurement errors can be questioned.

In Chapter 2 Lahiri considers a simultaneous wage-price model and instead of the original Livingstone data he uses the Livingstone data as adapted by Carlson. He now finds no evidence for measurement errors with respect to

the price expectation proxy and concludes that Carlson's adjustments improved upon original "consensus" data. Since Lahiri, however, has changed both the expectation data *and* the analytical framework the absence of measurement errors may be due to the latter factor rather than the different set of data.

A second result is that the coefficients of the expectations coefficients in the reduced-form wage and price equation are .85 and 1.22 respectively and thus relatively close to unity. If one compares this result (Table 2.1) with the results in the previous chapter (Table 1.2) one finds that the increase of the coefficient is apparently due to the introduction of a variable for the productivity increase and one wonders why Lahiri has not considered this specification in the first chapter, too.

A third result is that the Nixon wage-price controls had no restraining effect on wages while showing large effects on price increases during the early phase with a partial rebound later on.

In Chapter 3 the author considers the implications of the Rational Expectations Hypothesis (REH) in econometric macro-models. He finds that the coefficient of price expectations is also close to unity if the REH is applied instead of using survey data. Moreover, he finds that deviations in the unemployment rate can be explained by unexpected price changes — a test that one would have appreciated not only for the REH but also for the survey data, especially since the results presented in this chapter also show that the survey data reflect the true price expectations better than the proxy for rational expectations (the one-period-ahead increase in prices).

Chapters 4 to 6 are devoted to a discussion of price expectations in the context of econometric models for financial markets. Lahiri finds systematic errors in the measurement of price expectations on the basis of the adjusted Livingstone data although similar objections may be raised to the respective analysis in Chapter 1. The result that the adjusted survey data have shown no systematic measurement errors in macro-models may — according to the author — point towards non-homogeneous expectations in different markets. Moreover, Lahiri finds that the coefficient of price expectations in the Fisher equation is substantially below unity when the REH is applied, and above unity when survey data are used. Another result is that financial market models which permit variations in the expected real interest rate to change and to be correlated with price expectations appear to be more consistent with the efficient market hypothesis. The empirical observation that a reduction in real interest rates in the United States went along with a rise in nominal rates from 1959—1971 is consistent with Mundell's hypothesis that an increase in expected inflation rates causes — via the real balance effect — a reduction in real interest rates.

In summarizing, the weak points of this study — apart from the many confusing printing errors — can be seen in the fact that

— the several chapters do not always fit together neatly (there are several repetitions; more uniform models and a more uniform length of time series would have been desirable for better comparability);

— the author often does not adequately spell out the problems of his analysis (e. g. in respect to the tests for errors in measurement).

Positive features are that the author considers a number of different techniques which may be helpful for other researchers working in this field and gives a good survey of the main empirical work on price expectations in the United States.

Harmen Lehment

Mückl, Wolfgang J., und Alfred E. Ott (Hrsg.), *Wirtschaftstheorie und Wirtschaftspolitik. Gedenkschrift für Erich Preiser. Schriften der Universität Passau, Reihe Wirtschaftswissenschaften, Bd. 2. Passau 1981. Passavia Univ. Verl. VIII, 522 S.*

Dieser Band — das sei vorweg festgestellt — enthält eine ganze Anzahl von gediegenen und lesenswerten Aufsätzen. Wäre er unter dem Motto „Wer vieles bringt, wird jedem etwas bringen“ publiziert worden, so wäre er diesem Motto weitgehend gerecht geworden. Reichen doch die Themen der 29 Beiträge von „Ein Energiemodell für Thailand“ bis zu einer Untersuchung über Fehler in statistischen Erhebungen. Da es sich jedoch um eine Gedenkschrift für Erich Preiser handelt, kann sich eine kritische Betrachtung nicht allein auf die Qualität der Einzelbeiträge beschränken, sondern muß den Band als Gesamtkonzept beurteilen. Und dann ist es schwer, zu einem positiven Urteil zu kommen.

Über Sinn und Zweck von Festschriften zu runden Geburtstagen lebender Wissenschaftler ist schon öfters diskutiert worden. Jedenfalls können sie aber eine unproblematische Funktion erfüllen: Sie können dem Jubilar eine Freude bereiten, indem sie ihm bezeugen, daß er eine gewisse Wertschätzung genießt. Beiträge zu solchen Festschriften sind vor allem ein Ausdruck der Sympathie und Hochachtung für den Jubilar. Sie sollten nach Möglichkeit Qualität besitzen, die Thematik kann jedoch aus dem Interessengebiet des jeweiligen „Gratulanten“ stammen. Der Wert der Festschrift mag durch Straffungen und Systematisierungen der gewählten Themen steigen; aber notwendig sind sie nicht.

Die weitaus selteneren Gedenkschriften für verstorbene Gelehrte haben eine ganz andere Funktion. Sie sollen das Werk besonders wichtiger und hervorragender Personen ins Gedächtnis rufen, sollen verhindern, daß Wertvolles in Vergessenheit gerät, sollen zum Verständnis und zur Weiterentwicklung des Werkes beitragen. Anlässe für Gedenkschriften sollten daher sorgfältig gewählt und die Durchführung der Projekte sorgfältig geplant werden.

Was den ersten Punkt betrifft: Die Initiative, die anläßlich der achtzigsten Wiederkehr von Erich Preisers Geburtstag zu dem vorliegenden Band führte, kann man nur voll unterschreiben. Erich Preiser gehörte in den Jahren seines Wirkens wohl zu den gedankenreichsten und ausgewogensten Nationalökonomern Deutschlands. Ihm einen Gedenkband zu widmen bedarf keiner weiteren „Entschuldigung“.