Business Cycle Modeling After the Financial Crisis

BI
September 4

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Some observations

- Huge efforts to build financial sector into DSGE models (BGG, Iacoviello, Gertler&Kiyotaki)

- Regulatory advances to reduce the probability of another (very similar) crisis

- The monetary policy regime has survived

Some remarks

- The international origin makes this financial crisis different from last financial crisis
- This crisis is not primarily a result of modeling philosophy
- Is there a tendency to rely too much on monetary policy?

We wish to:

- Understand better the relationship between financial markets developments, the real economy and monetary policy
- Study the interaction between macro prudential tools/regulations and monetary policy
- Take proper account of risk/uncertainty (non-linear models)
- Account for heterogeneous agents (households, firms, banks)
- Investigate alternative ways of modeling expectations (learning, heterogeneous beliefs)
- Develop further indicators of systemic risk

Our strategy

- Put in place a project to work on these and related issues

- Our efforts will be based on a broad set of empirical and theoretical methodologies, including
  - DSGE models
  - VAR models
  - Error correction models
  - Behavioral finance models

- Learn from others