

For the NZESG Archive

NZESG at Otago

The 27th New Zealand Econometrics Study Group Meeting (NZESG) was hosted by the Department of Economics, University of Otago on 2 and 3 February 2017, partly supported by a grant from the Otago Business School. Since its foundation in 1997, NZESG has developed into a regular forum providing a supportive environment for econometricians to present and discuss their work. A particular focus of the meetings in recent years has been to connect the econometric communities in New Zealand and Australia.

Programme Chairs for the Meeting were Professor Peter Phillips (Yale University and the University of Auckland), Professor Alfred Haug (University of Otago), and Professor Dorian Owen (University of Otago).

The composition of the local organising committee was Professor Alfred Haug, Professor Dorian Owen, Dr Murat Ungor, and Dr Dennis Wesselbaum (all from the University of Otago).

There was a very positive response to the NZESG in Dunedin initiative, resulting in more than 30 registered attendees. Consequently, there was a full program with 25 papers presented in seven sessions over the two days. The workshop retained its unique features of a single stream of 20 minute presentations each followed by a formal five-minute discussant session, and engaging audience participation in five minutes of questions and answers. The quality of the presentations and content was high and covered a wide range of topics in theoretical and applied econometrics.

As has been the case in previous years, emphasis was placed on encouraging and supporting the achievements of emerging researchers. This year 11 students/early career researchers were eligible for the RBNZ-NZESG Research Awards, generously sponsored by the Reserve Bank of New Zealand. The Award is based on research presented at the meeting and the quality of the presentation, including discussion. This year's Awards Committee consisted of Professors Peter Phillips, Alfred Haug, Dorian Owen, Les Oxley (University of Waikato) and Richard Smith (University of Cambridge).

Qazi Haque (PhD student, University of Adelaide), Luis Uzeda (PhD student, Australian National University) and Lina Xu (PhD student, Queensland University of Technology) were awarded the RBNZ-NZESG Research Awards for 2017 and these were presented in the final session by Christie Smith from the RBNZ.

Qazi Haque's paper, co-authored with Dr Firmin Doko Tchatoka (University of Adelaide), contributes to recent developments on forecasting by proposing a bootstrap procedure that enhances the finite-sample performance (size and power) of tests of equal accuracy of out-of-sample forecasts in nested models. They present Monte Carlo experiments which show that the proposed bootstrap has overall good small-sample size and power properties.

Luis Uzeda's paper develops an econometric framework to investigate the contribution of monetary policy to the dynamics of US trend inflation. Luis seeks identification strategies of the policy shock to trend inflation which highlight particular changes in the conduct of systematic monetary policy and overidentify a state space model for inflation and the policy rate. Luis provides evidence that the monetary policy contribution to stabilize trend inflation during the 1980s can be characterized by a

weaker reaction to perceived changes in the output gap accompanied by an increased emphasis on inflation gap dynamics and inflation target adjustment shocks.

Lina Xu's paper, co-authored with Professor Stan Hurn (Queensland University of Technology) and Emeritus Professor Kenneth Lindsay (Glasgow University), contributes to the simulation of exact solution paths for stochastic differential equations commonly encountered in finance. In most cases of interest, the transitional density function of the model is not known in closed form and so has no explicit solution. This paper develops a simulation procedure in which a solution path is drawn using the inverse cumulative density technique. The cumulative transitional density is derived from the Hermite polynomial expansion approximation to the transitional density, an approximation which is known to be extremely accurate. The method is benchmarked using the square root diffusion, whose transitional density is known, and then used to generate solution paths for the Chan et al. (*J Finance*, 1992) diffusion whose transitional density is not available in closed form.

All three were excellent presentations, which were complemented by thoughtful and well balanced discussions of the papers to which the awardees were allocated as discussants.

The meeting was an enjoyable and productive affair. The organisers received very positive feedback on the programme, the organisation of the meeting, the helpful and stimulating discussions, and the convivial conference dinner at Copper Restaurant. The 28th meeting of the Group is planned for February 2018 (venue to be announced).