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Vol. 4, No. 15: Feb 8, 2011
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ECONOMETRICS: DATA COLLECTION & DATA ESTIMATION METHODOLOGY eJOURNAL

"Beyond GDP and Back: What is the Value-Added by Additional Components of Welfare Measurement?"

Ruhr Economic Paper No. 239

SONJA C. KASSENBOEHMER, Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI Essen), University of Bochum
Email: kassenboehmer@rwi-essen.de
CHRISTOPH M. SCHMIDT, Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI Essen), Institute for the Study of Labor (IZA), Centre for Economic Policy Research (CEPR)
Email: schmidt@rwi-essen.de

Recently, building on the highly polarizing Stiglitz report, a growing literature suggests that statistical offi ces and applied researchers explore other aspects of human welfare apart from material well-being, such as job security, crime, health, environmental factors and subjective perceptions. To explore the additional information of these indicators, we analyze data on the macro level from the German Federal Statistical Office combined with micro level data from the

German SOEP (1991–2008) on the personal work situation and subjective feelings concerning several aspects of life. Employing the indicators suggested by the Stiglitz Report, we find that much of the variation in many well-being measures can indeed be captured well by the hard economic indicators as used in the literature, especially by GDP and the unemployment rate. This suggests that the hard indicators are still a reasonable and quite robust gauge of well-being of a country. And yet, we also see that these correlations are far from perfect, thus giving considerable hope that there is room for a broader statistical reporting.

"Temporal Changes in Shiller's Exuberance Data"

MUKUL PAL, Orpheus Capitals
Email: mukul@orpheus.asia
ADRIAN MITROI, *affiliation not provided to SSRN*
Email: adrian.mitroi@gmail.com
MEGH SHAH, Orpheus Capitals
Email: m5shah@students.latrobe.edu.au

Robert Shiller's' Paper on 'The Volatility of Stock markets Prices' published in 1987 uses dividend data and real interest rates to seek evidence that true investment value changes through time sufficiently to justify the price changes. His

paper concluded that most of the volatility of the stock market prices appears unexplained. Shiller volatility or fluctuations prove that behavior of markets is not normal. Non normal distribution series is a widely followed proof of inefficiency in prices.

The authors of the current paper reanalyze Shiller's data not for the change but for rate of change. The rate of change in dividend values, interest rates and market price is used to isolate temporal changes (time durations) defined in days. Though on one side the time duration data illustrate a non normal distribution and confirms Shiller's non normalcy finding within value (fundamental data) and market data, it opens a larger debate suggesting temporal changes to be the reason for market volatility and inefficiency.

"On the Problem of Measuring Happiness"

SABINE HOSSENFELDER, Nordita
Email: hossi@nordita.org

The question of how to measure and aggregate happiness is more than a century old. In recent years, its relevance has risen due to efforts to replace the GDP with an index more indicative of well-being, though such efforts are fraught with serious conceptual problems. After briefly recalling these problems, we suggest to address them by using instead of the common ordinal utility an alternative quantity that is maximized in economic transactions. This quantity counts the number of future possibilities a commodity opens. The big advantage of this approach is that, in principle, the number of possibilities is an objective measure which allows for intra- and interpersonal comparison. We lay out the framework of the model and then discuss its relevance for social welfare. While we do here not explicitly compute a measure supplementing the GDP, we sketch how this could be done in practice.

"The Distribution of the Size of Price Changes"

NBER Working Paper No. w16760

ALBERTO CAVALLO, Massachusetts Institute of Technology (MIT) - Sloan School of Management
Email: acavallo@mit.edu
ROBERTO RIGOBON, Massachusetts Institute of Technology (MIT) - Sloan School of Management, National Bureau of Economic Research (NBER)
Email: rigobon@mit.edu

Different theories of price stickiness have distinct implications on the properties of the distribution of price changes. One of those characteristics is the number of modes in the distribution. We formally test for the number of modes in the price change distribution of 32 supermarkets, spanning 23 countries and 5 continents. We present results for three

modality tests: the two best-known tests in the statistical literature, Hartigan's Dip and Silverman's Bandwith, and a test designed in this paper, called the Proportional Mass test (PM). Three main results are uncovered. First, when the traditional tests are used, the unimodality around zero is rejected in about 90 percent of the establishments. When we used the PM test, which is more conservative than the first two, we still reject unimodality in two thirds of the supermarkets. There is significant heterogeneity across countries: the US, UK, and Uruguay are the most "unimodal" while the other countries in the sample exhibit significant bi-modality. Second, if we center the PM test on the largest mode – as opposed to zero – we have few rejections of unimodality. Finally, the rejection of unimodality changes through time and with the level of inflation. In countries where there is large inflation the distribution is unimodal around a positive value. In some countries where inflation drops over time – as it happened during the recent financial recession – unimodality at zero starts to disappear again. These results offer new stylized facts that theoretical models of price stickiness need to match. We perform a simple simulation exercise at the end using the model by Alvarez, Lippi, and Paciello (2010) and applying our PM test of unimodality to the model's distributions.

"Real Wages, Working Time and the Great Depression"

ROBERT A. HART, University of Stirling - Department of Economics, Institute for the Study of Labor (IZA)
Email: r.a.hart@stir.ac.uk
ELIZABETH ROBERTS, University of Stirling - Department of Economics
Email: j.e.roberts@stir.ac.uk

We have assembled two British data sets to re-examine the behaviour of real wages over the 1927-1937 cycle that contained the Great Depression. Both provide a degree of micro detail that greatly exceeds previous studies. The first consists of annual wages for 36 manufacturing industries. The second is based on blue-collar workers' company payroll data within engineering and metal working firms. It allows us to distinguish between pieceworkers and timeworkers, 14 occupations and 51 travel-to-work geographical districts. We measure the cycle using national unemployment rates as well as rates that match our industrial and district breakdowns. The roles of standard and overtime hours are found to be crucial to the behaviour of real pay during the Depression. Real weekly earnings of both timeworkers and pieceworkers are strongly procyclical. Real hourly earnings of pieceworkers, who comprise over half of the engineering workforce, are also significantly procyclical. Timeworkers' hourly wages are relatively unresponsive to the cycle. Annual wage measures are, at best, very weakly procyclical.

"Credit Constraints, Learning and Aggregate Consumption Volatility"

DANIEL L. TORTORICE, Brandeis University - Department of Economics, Brandeis University - International Business School

DANIEL L. TORTORICE, Brandeis University - Department of Economics , Brandeis University - International Business School
Email: tortoric@brandeis.edu

This paper documents three empirical facts. First, the volatility of consumption growth relative to income growth rose from 1947-1960 and then fell dramatically by 50 percent from the 1960s to the 1990s. Second, the correlation between consumption growth and personal income growth fell by about 50 percent over the same time period. Finally, the absolute deviation of consumption growth from its mean exhibits one break in U.S. data, and the mean of the absolute deviations has fallen by about 30 percent. First, I find that a standard dynamic, stochastic general equilibrium model is unable to explain these facts. Then, I examine the ability of two hypotheses: a fall in credit constraints and changing beliefs about the permanence of income shocks to account for these facts. I find evidence for both explanations and the beliefs explanation is more consistent with the data. Importantly, I find that estimated changes in beliefs about the permanence of income shocks have significant explanatory power for consumption changes.

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