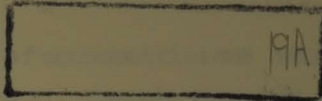


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NOTE FOR RECORD



Copies to: Mr. Goodhart  
Mr. Hignett  
Mr. Townend  
Mr. Saville  
Group 7/2

file

The 1979 Konstanz Seminar

The eleven papers presented were of very varying qualities and rather than write much about any of them, I will circulate the more interesting to the relevant parties\* and make here just a couple of general comments.

The first is that the rational expectations proponents at this Conference are obviously concerned to clarify what is and is not assumed about the information set available to economic agents when forming their expectations; in particular Brunner and Meltzer produced two papers utilising the framework that shocks to the system may be transient or permanent and economic agents are initially unable to distinguish between them<sup>†</sup>. In such cases they are able to derive a short-run Phillips curve - ie money is not strictly neutral in the short run. However, the authorities are not able to exploit this systematically in any way (to temporarily raise output, for example, by raising the money supply) because, it is argued, agents would quickly pick up and allow for this behaviour.

Such an approach is thus conceptually different from other ways of accepting and explaining the short-run non-neutrality of money (eg because of the fact that there are long-term contracts in the goods and labour markets or because firms face costs in changing prices in the short-run and therefore may not react instantaneously to new information). However, both Parkin and Minford, the discussants of the Brunner-Meltzer papers, admitted that they found it difficult to establish exactly what was going on in the model presented.

The second feature of the Conference was the very obvious proliferation of the forms in which rational expectations were being incorporated into models and the very fancy econometrics employed thereafter. Much of the latter was way above my head but my suspicions

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\*A list is attached.

<sup>†</sup>This differs from the confusion assumed in some models between aggregate and relative price movements as perceived by economic agents.

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of the moral fibre of econometricians were not reduced by some of the technical discussion. Jacob Frenkel, who presented a very impressive paper on exchange rates in the 1920s, was honest enough to say that "if the data don't shout loud enough, it is the econometricians' job to massage them until they do". It transpired in his case that this had involved reporting impressive quasi- $R^2$  figures for difference equations - ie he estimated the equations in both level and first-difference form and then reported the coefficients of the second with the  $R^2$  of the first. Nevertheless, several of the papers may be of interest, not for the models so much as the way in which they are tested.

One final point to be made is that there was general agreement (including by Ben Friedman, one of the few Keynesians present) that the programme of work by Sargent, apparently reported in articles recently in the JPE(2) and the JME, represented the best testing yet of rational expectations propositions. In Friedman's view, the score on the three tests so far was  $1\frac{1}{2}$  each to the proponents and opponents of rational expectations. Others may wish to follow me in catching up on this literature.

Economic Intelligence Department,  
18th June 1979.

M.D.K.W.Foot (4315)

*Michael Foot*

<u>Author</u>	<u>Paper</u>
1. Brunner, Meltzer	Information structure and optimal monetary policy.
2. Brunner, Meltzer, Cukierman	Stagflation, macro-economics and the permanence of economic shocks.
3. Korteweg	The economics of stagflation - theory and Dutch evidence.
4. Frenkel	Exchange rates in the 1920s - a monetary approach.
5. De Grauwe	Exchange rates and monetary policies in a multi-country model.
6. Vaubel	International shifts in the demand for money and their implications for exchange rate changes and the pre-announcement of monetary expansion.
7. Langohr	The banking system's refinancing and base determination.
8. Reding	Bank borrowing and the control of the money stock in Belgium.
9. Kantor	Rational expectations and economic thought.
10. Alexander, Loef	Unanticipated monetary variables and real effects in an open economy.

NB.

The eleventh paper presented (and the sole English offering) - Felix Fitzroy, Wage contracts and risk-sharing by implicit and firm indexation - can be obtained by writing to the Strandhaus Hotel, Riehenau and asking if they have kept the contents of my waste-paper basket.

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KONSTANZ SEMINAR ON MONETRY THEORY  
AND MONETARY POLICY

10th Anniversary Conference

June 12 - June 15, 1979

List of Participants

- 1. Volbert Alexander                      Universität Gießen
- 2. Antonio Argandōna                      University of Málaga
- 3. Robert Auerbach                        U.S. House of Representatives,  
Committee on Banking, Finance  
and Urban Affairs
- 4. Ernst Baltensperger                    Universität Heidelberg
- 5. Wolf-Dieter Becker                    Technische Hochschule Aachen
- 6. Joseph Bisignano                        Federal Reserve Bank of  
San Francisco and Bank for  
International Settlements
- 7. Eduard J. Bomhoff                      Erasmus Universiteit Rotterdam
- 8. Karl Brunner                            University of Rochester  
and Universität Bern
- 9. Alex Cukierman                         University of Tel-Aviv  
and Carnegie-Mellon University
- 10. Hermann Dudler                        Deutsche Bundesbank

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11. Dieter Duwendag Hochschule für Verwaltungs-  
wissenschaft
12. Bernd Faulwasser Gesamthochschule Siegen
13. Wolfgang Fautz Schweizerischer Bankverein, Basel
14. Felix R. FitzRoy Internationales Institut für  
Management und Verwaltung
15. Michael D.W.K. Foot Bank of England
16. André Fourçans Ecole Supérieure des Sciences  
Economique et Commerciales, Cergy
17. Michele Fratianni Indiana University and  
Université Catholique de Louvain
18. Jacob A. Frenkel University of Chicago
19. Benjamin M. Friedman Harvard University
20. Werner Gaab Universität Mannheim
21. Alexander Galli Schweizerische Nationalbank
22. Bruno Gehrig Universität Bern
23. Hans Genberg Graduate Institute of International  
Studies, Geneva
24. Beat Gerber Schweizerische Nationalbank
25. Paul De Grauwe Université Catholique de Louvain
26. Dale Henderson Board of Governors,  
Federal Reserve System

27. Manfred Hieber                      Universität Bonn
28. Brian Kantor                        Carnegie-Mellon University
29. Eberhard Ketzler                    Landesbank Rheinland-Pfalz
30. Rudolf C. Klein-Zirbes            Deutscher Sparkassen- und  
Giroverband
31. Pieter Korteweg                    Erasmus Universiteit Rotterdam
32. Herwig Langohr                    European Institute of  
Business Administration
33. Nikolaus K.A. Läufer              Universität Konstanz
34. Hans-Edi Loef                      Universität Konstanz
35. Peter van Loo                        Erasmus Universiteit Rotterdam
36. Allan H. Meltzer                    Carnegie-Mellon University
37. Patrick Minford                    University of Liverpool
38. Mario Monti                        Università Bocconi, Milano,  
and Università di Torino
39. Manfred J.M. Neumann            Freie Universität Berlin
40. Michael Parkin                    University of Western Ontario
41. Paul Reding                        Faculté Universitaire, Namur
42. Georg Rich                         Schweizerische Nationalbank
43. Rudolf Richter                    Universität des Saarlandes

44. Klaus-Walter Riechel International Monetary Fund
45. Kurt Schiltknecht Schweizerische Nationalbank
46. Jürgen Schröder Universität Mannheim
47. Wolfgang Schröder Freie Universität Berlin
48. Werner Steuer Gemeinschaft zum Schutz der deutschen Sparer, Bonn
49. Wolfgang F. Stolper University of Michigan, Ann Arbor
50. Ronald L. Teigen University of Michigan and Universität des Saarlandes
51. Gunther Tichy Universität Graz
52. Roland Vaubel Erasmus Universiteit Rotterdam
53. Walter Wasserfallen Universität Bern
54. Robert Weintraub U.S. House of Representatives, Subcommittee on Domestic Monetary Policy
55. Klaus Wieners Westdeutsche Landesbank
56. Mark H. Willes Federal Reserve Bank of Minneapolis
57. Manfred Willms Universität Kiel
58. Artur Woll Gesamthochschule Siegen
59. Gerhard Zweig Universität Bonn
60. Paul Van den Bergh Université Catholique de Louvain