

**Conference on**

***Behavioural Macroeconomics:  
Theory and Policy Implications***

**Date and Place:**  
**Sydney, 22-23 June 2009**  
Reserve Bank of Australia's H.C. Coombs Training Centre,  
Kirribilli, Sydney

**Hosted by the**

**Centre for Applied Macroeconomic Analysis (CAMA) in the  
College of Business and Economics at  
The Australian National University**

## Conference Description

The unfolding global financial crisis dramatically illustrates the deficiencies of the current state of macroeconomic theory. The Great Moderation, the recent era of high growth and subdued volatility, has ended abruptly with unprecedented gyrations in stock markets, severe disruptions in global credit markets, volatile inflation and—most likely—deep recessions across the industrialised world.

Such wholesale shifts in economic fortunes are difficult to reconcile with dominant standard economic theory, which emphasises rationality and linearity. Behavioural economics seeks to refine our understanding of the discipline by accounting for relevant features of human behaviour that are absent in the standard economics framework. The basis for analysis is empirically well-documented psychological and sociological factors such as cognitive bias, reciprocity, fairness, herding, and bounded rationality. Finance theorists have long acknowledged that individuals are bounded in many dimensions, in particular in their rationality, self-control and self-interest. However, insights from behavioural economics have only recently found their way into macroeconomics. While behavioural macroeconomics is still in its infancy, it is rapidly making inroads into the mainstream. Prof. George Akerlof in his 2001 Nobel Prize acceptance speech said,

“I have argued in this lecture that reciprocity, fairness, identity, money illusion, loss aversion, herding, and procrastination help explain the significant departures of real-world economies from the competitive, general equilibrium model. The implication, to my mind, is that macroeconomics *must* be based on such behavioral considerations.”  
[G. Akerlof, 2002, “Behavioral Macroeconomics and Macroeconomic Behavior,” *American Economic Review* 92(3), p.428]

This two-day conference run by the Centre for Applied Macroeconomic Analysis at the Australian National University brings together leading researchers from the US, Europe and Australia/New Zealand to present recent advances in behavioural macroeconomics. The themes and papers have a strong theoretical footing, but the workshop’s purpose is to showcase the range of applications of behavioural methods and to display their policy relevance. The workshop will therefore be of interest to academics and research students, to policy makers from central banks and government departments as well as to financial market economists.

# Program

## Monday, 22 June

9:00am – 9:05am      Welcome  
**Warwick McKibbin** (ANU, CAMA, LIIP)

9:05am – 9:20am      Introduction  
**Timo Henckel** (ANU, CAMA)

### **Session 1: Price Rigidities**

**Chair: Mariano Kulish** (RBA)

9:20am – 10:20am      “Altruistic Dynamic Pricing with Customer Regret”  
**Julio Rotemberg** (Harvard University)  
Discussant: Dale Henderson (Georgetown University)

10:20am – 11:20am      “Pricing Under Inferential Expectations”  
**Gordon Menzies** (UTS, CAMA)  
Discussant: Fabrice Collard (University of Adelaide)

11:20am – 11:50am      **Coffee Break**

### **Session 2: Complexity and Learning**

**Chair: Warwick McKibbin** (ANU, CAMA)

11:50am – 12:50pm      “Expectations, Learning and Business Cycle Fluctuations”  
**Bruce Preston** (Columbia University, CAMA)  
Discussant: Aarti Singh (University of Sydney)

12:50pm – 2:00pm      **Lunch**

2:00pm – 3:00pm      “Non-self Averaging Economic Growth: A Criticism of Endogenous Growth Theory”  
**Masanao Aoki** (UCLA)  
Discussant: Guay Lim (University of Melbourne)

### **Session 3: Credit Markets and Financial Decision Making**

**Chair: Timo Henckel** (ANU, CAMA)

3:00pm – 4:00pm      “Money Illusion”  
**Jean-Robert Tyran** (University of Copenhagen, CAMA)  
Discussant: William Coleman (Australian National University)

4:10pm – 4:20pm      **Coffee Break**

4:20pm – 5:20pm      “Consumer Behavior in Consumer Credit Markets”  
**Sumit Agarwal** (Federal Reserve Bank of Chicago)  
Discussant: Stephen Miller (Monash University)

7.00pm – 10.00pm      **Conference Dinner Preceded by Pre-Dinner Drinks**

## **Tuesday, 23 June**

### **Session 4: Labor Markets and Firms**

**Chair: Bruce Chapman (ANU)**

- 8:50am – 9:50am “Fairness and Effort: Evidence from a Field Experiment”  
**Lorenz Goette** (University of Geneva)  
Discussant: Tom Wilkening (University of Melbourne)
- 9:50am – 10:50am “Involuntary Unemployment, Macroeconomic Policy, and a Behavioral Model of the Firm”  
**Morris Altman** (Victoria University of Wellington)  
Discussant: Glenn Otto (University of New South Wales)
- 10:50am – 11:10am **Coffee Break**

### **Session 5: Business Cycles**

**Chair: David Orsmond (RBA)**

- 11:10am – 12:10pm “Animal Spirits and Monetary Policy”  
**Paul de Grauwe** (Catholic University Leuven, CAMA)  
Discussant: Colin Rogers (University of Adelaide)
- 12:10am – 1:10pm “Macroeconomics and the Behavioural Foundations of the Fix-flex Price Mix: Developing Some Early Insights Into Macroeconomics”  
**Ian McDonald** (University of Melbourne, CAMA)  
Discussant: Jeff Sheen (Macquarie University, CAMA)
- 1:10pm – 2:10pm **Lunch**

### **Session 6: Asset Prices and Housing Market**

**Chair: Renee Fry (CAMA, ANU)**

- 2:10pm – 3:10pm “Asset Pricing with Loss Aversion: Theory and Empirics”  
**Willi Semmler** (New School for Social Research)  
Discussant: Vlad Pavlov (Queensland Univ of Technology, CAMA)
- 3:10pm – 4:10 pm “Irrational Exuberance in the U.S. Housing Market: Were Evangelicals Left Behind?”  
**Christopher Crowe** (IMF)  
Discussant: Susan Thorp (Univ of Technology Sydney, CAMA)
- 4:10pm – 4:20pm Wrap-up  
**Warwick McKibbin & Timo Henckel** (ANU, CAMA)
- 4:20pm **Conference Conclusion**

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