Banque de France/FFJ Workshop
« What Has Happened during Japan's Lost Decades? »

Tuesday December 1st, 2015, 1:30 p.m.-6:00 p.m.

PROGRAM

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Venue: **EHESS** (190 Avenue de France 75013 Paris, conference room 638 – 6th floor)

1:30–1:40 p.m.	Opening remarks by **Sébastien Lechevalier** (EHESS)
1:40-2:25 p.m.	**Kozo UEDA** (Waseda University/CEAFJP Banque de France Fellow) "Japan's Financial Crises and Lost Decades" Discussant: **Adrian PENALVER** (Banque de France)
2:25-2:40 p.m.	Break
2:40-3:25 p.m.	**Nobuyuki HANAKI** (University of Nice-Sophia Antipolis) "Diversity in cognitive ability enlarges mispricing" Discussant: **Fabrice LE LEC** (Paris 1 University)
3:25-3:40 p.m.	Break
3:40-4:25 p.m.	**Tomoaki YAMADA** (Meiji University) "TFP Growth, Monetary Policy, and Inequality in Japan" Discussant: **Benjamin CARTON** (CEPREMAP)
4:25-4:40 p.m.	Break
4:40-5:25 p.m.	**Daniele SIENA** (Banque de France) "News Shocks and International Business Cycles" Discussant: **Kozo UEDA** (Waseda University/CEAFJP Banque de France Fellow)
5:25-5:50 p.m.	General Discussion
5:50-6:00 p.m.	Concluding remarks

Kozo UEDA (Waseda University/CEAFJP Banque de France Fellow)

“Japan's Financial Crises and Lost Decades”

In this paper we explore the role of financial intermediation malfunction in macroeconomic fluctuations in Japan. To this end we estimate, using Japanese data, a financial accelerator model in which the balance sheet conditions of entrepreneurs in a goods-producing sector and those of a financial intermediary affect macroeconomic activity. We find that shocks to the balance sheets of the two sectors have been quantitatively playing important role in macroeconomic fluctuations by affecting lending rates and aggregate investments. Their impacts are prominent in particular during financial crises. Shocks to the entrepreneurs' balance sheets have played a key role in lowering investment in the bubble burst during the early 1990s and in the global financial crisis during the late 2000s. Shocks to the financial intermediaries' balance sheets have persistently lowered investment throughout the 1990s. Furthermore, we employ counterfactual simulation of capital injection policy during the period of Japan's banking crisis in the late 1990s and the early 2000s. According to the simulation result, capital injection, which amounts to about 13 trillion yen, raised investment by around 1% of its level.

Nobuyuki HANAKI (University of Nice-Sophia Antipolis)

“Diversity in cognitive ability enlarges mispricing**”**

How does known diversity in cognitive ability among market participants influence market outcomes? We investigated this question by first measuring subjects' cognitive ability and categorizing them as `H' type for those above median ability and `L' type for those below median ability. We then constructed three kinds of markets with six traders each: 6H, 6L, and 3H3L. Subjects were informed of their own cognitive type and that of the others in their market. We found heterogeneous markets (3H3L) generated significantly larger mispricing than homogeneous markets (6H or 6L). Thus, known diversity in cognitive ability among market participants impacts mispricing.

Tomoaki YAMADA (Meiji University)

“TFP Growth, Monetary Policy, and Inequality in Japan**”**

In this paper, we construct quarterly series of income and consumption inequality indices from the 1980s to 2000s and estimate how they react to a shock to TFO and conventional monetary policy using the local linear projection. Our findings are summarized in the four points. (i) A favorable shock to TFP and to the short-term interest rate both increases income and consumption inequality indices. (ii) Both shocks affect a distribution at the bottom more than that at the top. (iii) For both shocks, “heterogeneous earnings channel” seems to play an important role. (iv) For both shocks, less than 50% of income inequality is transmitted to consumption inequality. Using a simple dynamic general equilibrium model with heterogeneous agents, we discuss implications of our empirical results to nature of linkage between macroeconomic shocks and idiosyncratic risks.

Daniele SIENA (Banque de France)

“News Shocks and International Business Cycles”

The role of news shocks for international business cycle is first evaluated using a structural factor-augmented VAR model. This allows us to solve the non-fundamentalness problem and to recover the correct spillovers of news shocks across countries. Then, using a two-country, two-good real business cycle model with complete financial markets, we match the evidence including news shocks. In fact, the increased synchronization of the United States and the European Union business cycles with the rest of the world and the experienced increase in the international financial market integration motivates the search for a solution of the IRBC puzzles that does not rely only on the incompleteness of financial markets. Anticipated productivity shocks, in a standard IRBC model, featuring weak short-run wealth effects on the labor supply and investment adjustment costs, can match the evidence.