

NBER's 40th Macroeconomics Annual Conference, held on April 10-11, 2025, in Cambridge, Massachusetts.

Organizers: John Leahy (University of Michigan and NBER), and Valerie Ramey (Hoover Institution, NBER, CEPR)

The NBER's 40th Annual Conference on Macroeconomics brought together leading scholars to present, discuss, and debate four research papers on central issues in contemporary macroeconomics. In addition, it included a panel discussion on "The Steep Decline in Global Fertility: Cause and Consequences." Valerie Ramey moderated the panel, which included Jesus Fernandez-Villaverde, Michael Geruso, Claudia Golden and Jeanne Lafortune.

This conference volume contains edited versions of the four papers presented at the conference, each followed by two written discussions by leading scholars and a summary of the debates that followed each paper. It also contains a keynote address by Olivier Blanchard commemorating the 40th anniversary of the conference entitled "Convergence? Thoughts about the evolution of macroeconomics over the last 40 years."

In his address, Blanchard assesses the evolution of macroeconomics over the past forty years. He offers two two main conclusions. The first is that the history of macroeconomics over the past forty years is one of convergence. Beginning from a state of great disagreement, the field has largely converged in terms of methodology and architecture, while there continues to be disagreement over the main sources of fluctuations and the importance of specific transmission mechanisms. The second is that this convergence has been largely in the right direction. Macroeconomics, in its current form, provides a conceptual basis that future research can build upon.

To make his case, Blanchard cites many articles from the past 40 years of the conference. He also cites results from a survey that he conducted in which he elicited the views of selected researchers on the evolution and state of the profession. Blanchard concludes by arguing that macroeconomics has developed many of the characteristics of a mature science.

Hegemonic powers often use economic policies to exert their influence over other nations. Geoeconomics studies how nations exert this power. As such it is at the intersection of economics and political science. The paper "Putting Economics back into Geoeconomics" by Christopher Clayton, Matteo Maggiori and Jesse Schreger surveys the literature on geoeconomics and presents a simple modelling framework that shows how to think about different types of threats and enticements. In the model, a hegemon uses

carrots such as foreign aid and access to markets, as well as sticks such as embargos and tariffs, to exert its will on a target country. It uses these tools to manipulate the relative costs and benefits to the target of taking the hegemon's preferred action over some outside option. The authors show how the effectiveness of these policies depend on features of the economic environment such as the target's available alternatives and the ease by which the target can take advantage of those alternatives. In the words of one of the discussants: Linkage is leverage.

Both discussants praised the elegance of the framework. They largely limit their comments to potential extensions. Frieden argues that the utility function of the hegemon is a complex multidimensional object worthy of elaboration. He believes that further progress depends on understanding how domestic political factors both potentially constrain the hegemon and shape the response of the target. Mayer suggests extending the framework to consider how a hegemon might interact with multiple targets, how uncertainty might impact the cost of making threats, and how prices might adjust in equilibrium when the target of the hegemon's pressure is large.

For decades Sims' vector autoregressions (VARs) were the dominant method for estimating impulse response functions, but now Jorda's local projection method offers an alternative. The availability of the two methods has led to questions about which one to use in which instances. An econometric literature comparing the two methods has taken several twists in the last several years, leading to revisions of views of how the two are related and what their relative strengths are. As a result, practitioners are often unsure which method to use.

The paper "Local Projections or VARs? A Primer for Macroeconomists" by José Luis Montiel Olea, Mikkel Plagborg-Møller, Eric Qian, and Christian Wolf takes stock of the current understanding of the strengths and weaknesses of each method and offers guidelines to macroeconomists. They argue that local projections and vector autoregressions lie at opposite ends of the bias-variance tradeoff: local projections produce estimates with lower bias but higher variance whereas VARs do the opposite. While some earlier work by the authors argued that local projections should be chosen only if the researcher puts an extremely high weight on reducing bias, the present paper broadens the objective function to include hypothesis testing. They argue that the high variance of the local projections gives a more accurate view of the uncertainty of the estimates and is therefore superior for hypothesis testing. The only way to reduce the bias and raise the coverage of VARs is to include more lags; yet with more lags the variance of the estimates rises. The authors conclude that in most cases local projections are probably the preferred method. The authors also address numerous other issues that confront practitioners, such as how many

control variables should be included and how the model should be modified for long-horizon impulse responses, so the paper is a useful manual.

Both discussants praise the usefulness of the paper and both write extended discussions on the rich topic of VARs versus local projections. Christianne Baumeister questions some of the guidelines offered by the authors. Drawing on insights from a recent paper by Ludwig, as well as illustrating key results with Monte Carlo's and applications from the literature, Baumeister offers important additional insights into the tradeoffs. Her analysis leads her to favor VARs more than the authors do and she offers several modifications of the authors' guidelines. In his discussion, Oscar Jorda addresses several additional issues that arise in practice, such as whether the impulse responses estimated with VARs answer different questions than those estimated with local projections. He also brings up the important issue of serially correlated treatment variables and the need also to report cumulative response ratios. Finally, he elaborates on some of the points on lag length and variance-bias tradeoff using his own Monte Carlos. The paper and the two discussions provide a very useful overview of the latest thinking about VARs versus local projections, and at the same time also highlight how recent discoveries make the current conclusions tentative.

The highest inflation in forty years revived interest in "sacrifice ratios" and other types of inflation and output tradeoffs. After a sharp runup in post-pandemic inflation and delayed but sharp monetary response in some countries, many observers were surprised that inflation was lowered significantly with seemingly little output loss. In "Tradeoffs Over Rate Cycles: Activity, Inflation, and the Price Level," Kristin Forbes, Yongrim Ha, and M. Ayhan Kose study the post-pandemic experience in comparison to rate cycles extending back to the 1970s for 24 advanced economies. The authors begin by using methods analogous to those used by Burns and Mitchell for business cycles to create a new cross-country panel data set of rate cycles, i.e., country-specific cycles in the tightening and easing of monetary policy. With this new data set, the authors study the interaction of types of monetary policies and the responses of inflation, price levels, and real activity. The authors uncover numerous broad patterns across countries. They confirm that the traditional sacrifice ratio was low during the post-pandemic disinflation, but that an alternative measure involving the cumulative change in the price level implies a much higher sacrifice ratio. They find that the delayed response followed by aggressive rate hikes along with credibility were key to the different responses relative to the 1970s and early 1980s. Their new chronology of rate cycles thus sheds light on the mechanisms of the recent disinflation and is likely to be useful for analysis of future inflation events and rate cycles.

Both discussants praise the new database created by the authors. Lucrezia Reichlin raises several issues that might modify the authors' analysis or conclusions. For example, she points out that the sacrifice ratio depends not just on the policy response but also on the nature of the shocks hitting the economy. Thus, the benign sacrifice ratio may have been due as much to the nature of the shock as the conduct of monetary policy. Separately, she questions the focus on cyclical deviations of GDP from potential GDP since recessions can also change trend GDP. Finally, she stresses the necessity of discussing the welfare function before making normative statements. In his discussion, Mark Watson asks a fundamental question about the rate cycle data set: what can be learned from this type of chronology that cannot be learned from linear time series models? Watson discusses the history of this question and its answers in the business cycle chronology context and then applies some of those methods to the rate cycle chronology. He concludes that for both business cycles and rate cycles, studying the statistics from the chronologies is useful not because of what they reveal about the data generating process but because they are useful descriptions of the data realizations in key historical times.

Credit scores play an important role in household finance but are largely ignored in macroeconomics. The paper "Credit Scores and Inequality across the Life Cycle" by Satyartjit Chatterjee, Dean Corbae, Kyle Dempsy and Jose-Victor Rios-Rull investigates the link between inequality and credit scores. It begins by documenting that credit scores tend to be correlated with an individual's income and age, and, like income, credit scores become more dispersed as a cohort ages. They then construct a dynamic general equilibrium model in which credit scores reflect default probabilities on loans. In the model, incomes affect credit scores and credit scores affect incomes. After showing that the model can replicate the patterns that they observe in the data, they use the model to evaluate several counterfactuals, such as eliminating credit scores or limiting their dependence on various sorts of information. They find full information to be welfare improving as it allows people with good credit risks to separate from those with bad credit risks. The good risks benefit from better credit terms. The poor risks benefit from pooling risks among themselves and from not having to exert effort to mimic those with better risks.

Both discussants emphasize the importance of the question. Albanesi comments on the gap between properties of credit scores in model and in reality. In the model, scores are unbiased estimates of the default probability. In reality, research has pointed to substantial misclassification of credit risks, as scores tend to overweight variables such as account age and credit utilization. She believes the correlation between credit scores, income and age to some extent reflects this misclassification. Herkenhoff emphasizes the

importance of the tools and modelling innovations developed by the authors and urges them to further enrich the analysis by relaxing the assumption that lenders continuously observe borrower income and by tightening the financial constraints on borrowing early in life.

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