New research on interest rates, bitcoin, etc.

By Editorial Staff *Thu, Apr 12, 2018*

Thrivent's Tanweer Akram on the effects of Fed tightening, Roger Farmer on Milton Friedman and inflation since 1979, plus research on crypto-currency and on the average age of entrepreneurs. (It's higher than you might think.)

Here are abstracts of new papers from a variety of sources, including the National Bureau of Economic Research (NBER) , that might interest RIJ readers. To purchase copies of any of the NBER papers ($5 each), click on the bold-faced titles.

Monetary Tightening, Financial Markets, and the U.S. Economy, by Tanweer Akram, Thrivent Financial.

The Federal Reserve has been gradually tightening monetary policy since late 2015. The tightening of monetary policy is motivated by sustained improvements in the labor market and concerns about risks to financial stability due to low interest rates. However, the pace of core inflation is subdued and still below the Fed’s target.

A gradual pace of monetary tightening does not have an adverse effect on financial markets and the U.S. economy, our examination of past episodes of monetary tightening shows. Stock prices tend to rise despite higher interest rates. The short-term interest rate moves in tandem with the fed funds target rate.

The long-term interest rate usually rises with higher short-term interest rates though so less in magnitude. The shape of the Treasury yield curve tends to flatten as monetary policy becomes tighter. Growth in industrial production generally continues amid higher interest rates if effective demand is sustained. Housing activity is sensitive to the mortgage rate but is supported by the improvement in the labor market and economic activity.

These empirical regularities associated with a gradual pace of monetary tightening imply that the U.S. economy should continue to expand at a moderate pace this year and possibly beyond. However, there are downside risks to the economic outlook. An inversion of the U.S. Treasury yield curve could be a useful signal of the risk of a slowdown in the business cycle.

Some Simple Bitcoin Economics, by Linda Schilling and Harald Uhlig.

How do Bitcoin prices evolve? What are the consequences for monetary policy? We answer these questions in a novel, yet simple endowment economy. There are two types of money, both useful for transactions: Bitcoins and Dollars. A central bank keeps the real value of Dollars constant, while Bitcoin production is decentralized via proof-of-work.

We obtain a "fundamental condition," which is a version of the exchange-rate indeterminacy result in Kareken-Wallace (1981), and a "speculative" condition. Under some conditions, we show that Bitcoin prices form convergent supermartingales or submartingales and derive implications for monetary policy.

The Role of Financial Policy, by Roger Farmer.
I review the contribution and influence of Milton Friedman's 1968 presidential address to the American Economic Association. I argue that Friedman's influence on the practice of central banking was profound and that his argument in favor of monetary rules was responsible for thirty years of low and stable inflation in the period from 1979 through 2009.

I present a critique of Friedman's position that market-economies are self-stabilizing, and I describe an alternative reconciliation of Keynesian economics with Walrasian general equilibrium theory from that which is widely accepted today by most neo-classical economists.

Age and High-Growth Entrepreneurship, by Pierre Azoulay, Benjamin Jones, J. Daniel Kim, Javier Miranda.
Many observers, and many investors, believe that young people are especially likely to produce the most successful new firms. We use administrative data at the U.S. Census Bureau to study the ages of founders of growth-oriented start-ups in the past decade.

Our primary finding is that successful entrepreneurs are middle-aged, not young. The mean founder age for the one in 1,000 fastest growing new ventures is 45.0. The findings are broadly similar when considering high-technology sectors, entrepreneurial hubs, and successful firm exits.

Prior experience in the specific industry predicts much greater rates of entrepreneurial success. These findings strongly reject common hypotheses that emphasize youth as a key trait of successful entrepreneurs.