Preface to On-Line Edition

I am grateful to Edward Parsons, economics editor at W.W. Norton, for arranging to put this book on line. This gives me the opportunity to make the equations of my multicountry model more widely available much as if the book were a series of articles published in an economics journal and now made available on JSTOR with the usual five year window.

Putting the book on line also enables me to make the solution program, program manual (written by John Williams), and original data part of the “book” and thereby much more easily accessible to people interested in using the model for research or policy work.

The book was first published in 1993 and was based on theoretical and empirical work at Stanford during the 1980s. The five key features of the multicountry model are

- Rational expectations.
- Staggered price and wage setting that generates
  \[ \Rightarrow \text{long run monetary neutrality} \]
  \[ \Rightarrow \text{and short run impacts of monetary policy.} \]
- Forward looking decision rules for consumption and investment.
- Financial arbitrage conditions linking
  \[ \Rightarrow \text{interest rates in different countries} \]
  \[ \Rightarrow \text{and long term to expected future short term interest rates in each country} \]
- Monetary policy rules

In my view these features are still essential ingredients of an empirical macroeconomic model.

Progress in all these areas has been great in the 1990s. In particular, research on staggered wage and price setting in macroeconomics (see my Handbook of Macroeconomics chapter) has given us a much better microfoundation to the staggered wage and price equations, but the general form of empirically estimated equations would still be very similar to those in the multicountry model. Similarly, more recent sticky price macroeconomic models (see for example, “Interest-Rate Rules in an Estimated Sticky Price Model”, by Julio Rotemberg and Michael Woodford or “Performance of Operational Policy Rules in an Estimated Semi-Classical Structural Model,” by Bennett McCallum and Edward Nelson) derive forward looking “IS” equations from a dynamic optimization problem for a representative agent. The “IS” equations implied by the consumption, investment, and net export equations in this multicountry model are also forward looking though the functional form is more complex to reflect the greater degree of disaggregation as well as empirical requirements in a quarterly multicountry model.