

## RESEARCH ACTIVITIES†

### MACROECONOMICS AND APPLIED ECONOMETRICS

#### European Forecasting Network

*Sponsor*

European Commission

*Project Members*

L. Corrado\*

G. De Rossi

A. Harvey

S. Holly

*Duration*

October 2001 - September 2004

The European Forecasting Network (EFN) is a research group of European institutions, founded in 2001 and financed by the European Commission. The objective of the EFN is to provide an independent critical analysis of the current economic situation in the Euro area, short-term forecasts of the main macroeconomic and financial variables, policy advice, and in-depth study of topics of particular relevance for the working of the European Monetary Union. The EFN has published a further two semi-annual reports, in the spring and in the autumn of 2003. Because of the expansion of the EU next year with the accession of 10 new member states, much of the analysis has been devoted to the economics of the accession countries, looking at cyclical convergence, effects of the union on the economic performance of the accession countries; the impact on the regional distribution of structural funds, and the fiscal and monetary obstacles to the accession countries moving toward full economic and monetary union. Further information on the EFN can be obtained from the web site, [www.efn.uni-bocconi.it](http://www.efn.uni-bocconi.it).

Spring 2003 Report on the Economic Outlook for the Euro Area,

<http://www.econ.cam.ac.uk/dae/people/holly/efn.htm>

Autumn 2003 Report on the Economic Outlook for the Euro Area,

<http://www.econ.cam.ac.uk/dae/people/holly/efn.htm>

Corrado, L. and Holly, S. (2003) 'Nonlinear Phillips Curves, Mixing Feedback Rules and the Distribution of Inflation and Output', *Journal of Economic Dynamics and Control*, Volume 28, Issue 3, Pages 467-492

#### Identifying and Modelling Macro-economic effects on Counter-party Default

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† Publications and papers directly related to a particular project are listed immediately below that project. A full list of output for the academic year may be found in Section 6, pp. 68-75.

\* Denotes Department Visitor.

*Sponsors*

KPMG

*Project Members*

A. Bhattacharjee

C. Higson

S. Holly

P. Kattuman

*Duration*

October 2002 – September 2005

The aim of this project is to establish the links between macro-economic instability and business exit into bankruptcy or acquisition among the population of firms, quoted and unquoted. This follows on from work on an earlier project that examined business cycle influences on corporate growth and profitability in the UK. The current research involves econometric analyses of the interplay between the characteristics of individual firms involved in exit and top management changes and the macroeconomic environment in which such changes occur. Efforts have been made to nest these empirical results within the context of an appropriate theoretical model. Particular attention has been paid to the legal and institutional framework governing business failure and reorganisation, and the way this affects company actions.

The past year has been an active period of research on the project. We continue to explore the relationship between the macroeconomic environment and exit (via bankruptcy or acquisition) at the level of the company. We make use of data sets for both quoted (Compustat, DTI/DAE, Exstat, Datastream) and unquoted (FAME) firms. While many previous studies have sought to determine firm level determinants of firm exit, the extent to which variations in the macro economic environment influences the hazard (of going bankrupt or being acquired) has not received significant attention. Here we use a competing risks framework to pin down reasons for bankruptcy and acquisitions. For quoted companies in the UK we have found clear evidence that instability is detrimental, in the sense that the hazard rate of exit due to bankruptcy increases significantly in an unstable macroeconomic environment (Bhattacharjee, Higson, Holly and Kattuman, 2002). We are in the process of extending this to the population of both unquoted, and small to medium sized companies.

In our work on the determinants of business exit in the US we have found that the provisions of Chapter 11 in the American insolvency system significantly alters the probability of bankruptcy versus acquisition (Bhattacharjee, Higson, Holly and Kattuman, 2003). In the US, Chapter 11 provides a haven for failing firms and allows time for an acquisition to take place, or for reorganisation and recovery. The detrimental impact of macroeconomic instability on business survival is, to that extent, reduced in the US. This raises further questions as to whether it may be economically efficient to temporarily protect failing firms from their creditors.

The econometric work in the above papers is based on estimation of hazard regression models under a competing risks set-up. The effects of regressors in these applications were observed to be significantly dependent on the age of the firms, and often highly non-linear in age. Econometric methods appropriate for the estimation of hazard regression models with such duration data are being developed in a series of papers (Bhattacharjee and Das, 2002, Bhattacharjee, 2003a, 2003b, 2003c).

- Determinants of Failures and Acquisitions of Large UK Firms', Cambridge Working Papers in Economics 0206, Department of Applied Economics, University of Cambridge
- Bhattacharjee, A., Higson, C., Holly, S. and Kattuman, P. (2003), 'Business Failure in UK and US Quoted Firms: Impact of Macroeconomic Instability and the Role of Legal Systems', mimeo
- Bhattacharjee, A. and Das, S. (2002), 'Testing Proportionality in Duration Models with Respect to Continuous Covariates', Cambridge Working Papers in Economics 0220, Department of Applied Economics, University of Cambridge
- Bhattacharjee, A. (2003a), 'Estimation in Hazard Regression Models under Ordered Departures from Proportionality', Cambridge Working Papers in Economics 0337, Department of Applied Economics, University of Cambridge, *Under revision in Computational Statistics and Data Analysis*
- Bhattacharjee, A. (2003b), 'Monotone Departures from Proportional Hazards with Respect to Continuous Covariates: Inference Procedures and Applications', mimeo
- Bhattacharjee, A. (2003c), 'A Simple Test for the Absence of Covariate Dependence in Duration Models', mimeo

### **The Business Cycle, The Firm and The Cross Section**

*Sponsors*

DAE

*Project Members*

J. Chadha

S. Holly

*Duration*

January 2003 – September 2004

*Associates*

S. Cook

C. Higson

This is a spin-off from the Leverhulme funding programme *Business Failure, Organisation and Macroeconomic Instability* and continues the research on cross sectional aspects of the business cycle. The aim is to develop our understanding of the observed asymmetries through mixture distributions and the application of triples tests and to increase our understanding of the business cycle by extending current generation dynamic macroeconomic models to incorporate cross sectional consequences.

- Chadha, J., Higson, C., Holly, S., Kattuman, P. (2002) 'The Channels of Monetary Policy: Evidence from firm level data in the US and UK' unpublished paper
- Chadha, J. and Holly, S. (2003) 'Monetary Policy, Expectations and Stabilisation', mimeo, prepared for the NIESR Conference on *Macroeconomics and the Policy Process*, May 2003
- Higson, C., Holly, S., Kattuman, P. (2003) 'The Business Cycle', *Macroeconomic Shocks and the Cross Section: Evidence from UK Quoted Companies*, forthcoming in *Economica*
- Higson, J., Holly, S., Kattuman, P. (2002) 'The Cross Sectional Dynamics of the US Business Cycle: 1950-1999', *Journal of Economic Dynamics and Control*. 26. 1539-1555

### **Issuing Debt in Local Currency, 1850-1939: Evidence from Early Emerging Markets**

*Sponsor*

ESRC

*Project Members*

C. Meissner (Cambridge)

M. Bordo (Rutgers)

A. Redish (University of British Columbia)

*Duration*

October 2002 – September 2003

This project aimed to collect a data set on the currency denomination of debt for a number of countries in the nineteenth century and to begin analysis of the determinants of currency

denomination of debt and its consequences. The issue is one of current interest because many believe that when countries issue debt in foreign currencies exchange rate depreciation can make debt charges increase rapidly and can make their financial crises become more severe than if they had local currency debt. The term 'Original Sin' refers to a country that cannot issue debt on international markets in its own currency or cannot borrow long-term on domestic markets.

The project began by analysing the experience of the USA, Canada, Australia, New Zealand and South Africa between 1800 and 2000. We found that these countries all suffered from Original Sin in the nineteenth century. This refutes a number of leading theoretical hypotheses that suggest bad monetary policy, exchange rate risk, or poor property rights protection for investors are necessary to explain the state of original sin. We see that the US breaks free from Original Sin in the 1930s when Roosevelt rescinded all gold clauses on US debt. Canada and the other countries gradually emerged from Original Sin as financial markets become deeper and more sophisticated to allow for hedging exchange rate risk. Overall we emphasise the role of large shocks, like the Depression or the collapse of Bretton Woods which rapidly created domestic currency bond markets where none previously existed. Also the economic size of countries is another prime determinant of Original Sin. Larger countries that trade more are more able to break free from Original Sin.

We also concentrated on gathering data on how much domestic currency debt and how much external/hard currency debt 28 important countries had between 1880 and 1913. Antonio David provided superb research assistance going to many libraries and archives to get this data. We have begun to use this data in an analysis of the severity and incidence of crises between 1880 and 1913. We find that countries with more sovereign foreign currency debt as a percentage of total sovereign debt were more likely to have had debt crises and these crises lasted longer the higher the proportion. We will proceed to use this data in a comparison to the last 30 years to see if Original Sin is still a problem or has become less of a problem.

Bordo, M., Meissner, C. and Redish, A. (2003) 'How "Original Sin" was Overcome: The Evolution of External Debt Denominated in Domestic Currencies in the United States and the British Dominions' NBER working paper 9841, and a chapter in Eichengreen, B. and Hausmann, R. (forthcoming) *Currency and Maturity Matchmaking: Achieving Redemption from Original Sin*

## **Episodic Economic Growth Since 1850**

### *Sponsors*

ESRC – Understanding the Evolving  
Macroeconomy Research Programme

### *Duration*

January 2001 – March 2003

### *Project members*

C. Ristuccia  
S. Solomou

### *Objectives*

- To describe historical phases of economic growth and evaluate whether the observed phases are national-specific

- To identify the determinants of episodic growth across different historical periods
- To evaluate the effects of different types of policy regime on episodic economic growth
- To evaluate the importance of events and specific policies on economic growth
- To use historical evidence to gain an insight on the expected functioning of new policy frameworks such as European monetary union.

### *New Research Activities*

As a starting point in analysing the effects of different policy/exchange rate regimes on economic growth the project re-evaluated the effects of silver depreciation in the late 19<sup>th</sup> Century (1873-95). Depreciation of silver resulted in a large effective exchange rate depreciation in the silver standard countries. The mirror image of this (together with significant depreciation in the paper currencies) is an appreciation of the effective exchange rates of the gold standard countries. These nominal exchange rate movements resulted in *real* exchange rate movements that had real macroeconomic effects. Comparing the experience of a selection of the silver standard countries (India, Mexico, Japan) with the core European gold standard countries (Britain, France and Germany) the project evaluates the link between trended exchange rate movements and economic growth.

Although trended movements in the exchange rate had an observable trended effect on export growth, this effect was not manifested as a trended effect on the macroeconomy but was instead limited to an *impact effect*. Such impact effects are observed in the 1870s for Britain and Germany and in the 1880s for France. Paradoxically, the first wave of the spread of the gold standard in the 1870s resulted in an episode of economic growth based increasingly on internal demand. This result adds a new insight to the recent literature suggesting that countries on the gold standard traded proportionally more with each other, once we control for other variables explaining bilateral trade flows within the gravity model framework. The evidence suggests that even if this result proves to be robust, the time-series dimension of this is that during the late 19<sup>th</sup> century countries on gold were faced with trended exchange rate shocks during 1873-95 that reduced overall export growth for the bloc. Thus the net benefits to trade of the gold standard need to be analysed in the context of intra-bloc and inter-bloc effects. The impact of the gold standard on trade can only be fully understood in the context of a historical time-profile. Cross-sectional studies that have emphasised the trade-augmenting effects of the gold standard fail to observe the time-profile of historical shocks.

The effect of trended currency depreciation on the silver standard economies is observed in the form of a stimulus to exports. However, generalisations relating to macroeconomic performance need to be qualified. In the case of Japan and Mexico although trended depreciation stimulated exports these economies were relatively closed, limiting macroeconomic effects. The implication of this is that we observe an *asymmetry* in the impact of exchange rate changes on the world economy. The exchange rate movements of the late 19<sup>th</sup> Century had significant adverse impact effects on the core European economies but were of limited benefit to the silver standard economies. Thus, on balance, we expect to observe a net adverse effect on the world economy.

- Catao, L. and Solomou, S. (2003) 'Exchange Rates in the Periphery and International Adjustment Under the Gold Standard', International Monetary Fund Working Paper 03, 41
- Ristuccia, C. A. and Tooze A. (forthcoming) 'Tooling for victory: Machine tools in the United States and Germany 1930-1945', *Journal of Economic History*
- Ristuccia, C. A. and Solomou, S. (2003) 'Exports and Episodic Economic Growth', mimeo
- Ristuccia, C. A. and Solomou, S. (2003) 'Exchange Rates and Economic Performance in the Late 19<sup>th</sup> Century', mimeo
- Ristuccia, C. A. and Solomou, S. (forthcoming) 'The Cutting Edge of Modernity: Machine Tools in the United States and Germany 1930- 1943' Cambridge Working Paper in Economics
- Solomou, S. and Shimazaki, M. (2002) 'Japanese Episodic Economic Growth 1870-1938', unpublished
- Solomou, S. N. and Shimazaki, M. (forthcoming) 'Japanese Episodic Economic Growth 1870-1938', *Journal of Economic History*
- Solomou, S. and Vartis, D. 'Effective Exchange Rates: Britain 1913-30', unpublished

### **Economic Policy and Political Myopia**

<i>Sponsor</i>	<i>Duration</i>
ESRC	Jan 2000 – Aug 2003
<i>Project members</i>	
T.S. Aidt	S. Engerman
M. Daunton	R. Salih
J. Dutta	

The aim of this project, which was completed August 31 2003, was to investigate 'short-termism' or myopia, in making of economic policy. This was done at a theoretical level, and at an empirical level, as well as by evaluating instances of myopic policy-making as in-depth case studies.

Theoretical underpinnings have been explored in a series of studies that analyse dynamic aspects of policy myopia arising in economies with rational voters and self-interested politicians. The common theoretical theme in this work is electoral accountability, i.e., the extent to which rational voters can hold elected politicians accountable for policy choices made while in office and the extent to which they can and will use the incentives provided by elections to promote efficient economic policies and to limit myopic behaviour by politicians. The studies cover a range of topics, including growth conflicts; corruption and entry restrictions; capital taxation; the use of efficient policy instruments in environmental regulation; and the role of turnout uncertainty in elections and other sources of governance uncertainty. The core theoretical work on policy myopia has been circulated in the working paper *Policy Myopia*. The paper considers the following question: are democratic governments likely to be short-sighted in their policies and should rational voters tolerate, or even expect their elected representatives to behave myopically. It is demonstrated that policy myopia, understood as over-investment in public services with the property that provision levels can be observed immediately (as opposed to later), is accepted by voters only in societies where electoral accountability is sufficiently imperfect.

We have constructed and analysed three datasets, two historical and one contemporaneous. Advised by Professor Stanley Engerman, we have constructed a panel dataset (from secondary sources) with information on (central) government expenditures, indicators of democracy and

other relevant economic variables for 12 Western European countries covering the period 1830-1939. The other historical dataset is collected from primary sources (British Parliamentary Papers) under the direction of Professor Martin Daunton and Professor Stanley Engerman, and consists of a panel of 75 municipal boroughs in England and Wales (1865-1888). Fiscal data on spending and taxation have been matched with data for the extension of the local government franchise. The contemporaneous dataset contains information on fiscal outcomes and indicators of the quality of democracy in 80 countries in 1995. These datasets are in themselves important research outputs.

Despite the differences across time and space, the three datasets are telling a very similar story: the spread of democracy or the quality of democracy is not invariably associated with an expansion of government spending. On the contrary, both historically and today, democratisation holds, in many cases, government spending, in particular on public services, back. In the paper *Democracy comes to Europe: franchise expansion and fiscal outcomes 1830-1939*, we investigate the role of democracy in explaining the level and pattern of public spending in 12 European countries from 1830-1839. During the second half of the 19<sup>th</sup> century, democracy gradually spread across Europe. Economic theory suggests that this should have an impact on the composition of government, with an increase in total spending as the net result. We find that the impact of the franchise (both the gradual lifting of economic and social restrictions and the female suffrage) had a surprisingly small (economically speaking) impact on fiscal outcomes and in some cases even contributed to delaying the expansion of government that took place towards the end of the period. In the paper *Policy Myopia*, we report results from a cross-country study of 80 democracies in 1995. Here, the question is not so much the spread of democracy as such, but rather the link between the quality of democracy, as measured by indicators of political accountability, and public spending on transfers, public services (including health and education) and public investments. Surprisingly, we find robust evidence of a negative correlation between spending on public services and investments and the quality of democracy. The final bit of evidence comes from the panel of 75 municipal boroughs in 1865-88. One of the proximate causes for the reduction in the quality of life observed in the mid-late 19<sup>th</sup> century Britain was under-provision of local public goods (sanitation, for example). Our main interest lies in quantifying the role of political institutions in explaining variations in provision of local public goods across municipal boroughs, thereby indirectly explaining variations in the quality of life. The local voting franchise was for various institutional reasons very unevenly extended across space, as discussed in Aidt and Daunton (2003). This variation – along with time series variation – makes it possible to test what has become known as the entrenchment hypothesis: public spending on urban sanitation were blocked by a middle class of small shopkeepers and landlords. Thus, in boroughs with a restricted franchise, the elite could circumvent this resistance directly and promote higher spending (as in Birmingham). Likewise, in boroughs with a wide franchise, the elite could form a coalition with skilled workers and again promote improvements in the urban environment. However, in boroughs with a franchise in-between, such as in Leeds, spending could be block by the rate paying middle class. Preliminary statistical analysis provides some evidence in support of this idea and thus, in support of the notion that democracy does not invariably lead to higher spending.

- Aidt, T. and Dutta, J. (2002) 'Strategic consensus: performance voting with electoral uncertainty', memo  
Aidt, T. and Dutta, J. (2003) 'Strategic consensus and governance uncertainty', journal resubmission  
Aidt, T. and Dutta, J. (2003) 'Growth and Governance or Why is Growth so Bad for Rent Seeking', memo  
Aidt, T. and Dutta, J. (forthcoming) 'Transitional Politics: Emerging Incentive-based Instruments in Environmental regulation', *Journal of Environmental Economics and Management*  
Aidt, T. and Daunton, M. (2003) 'The local franchise and public spending in England and Wales 1865-1888', memo  
Aidt, T., Dutta, J. and Loukoianova, E. (2002) 'Democracy comes to Europe: franchise expansion and fiscal outcomes 1830-1939', journal resubmission  
Aidt, T. and Magris, F. (2002) 'Capital taxation and electoral accountability', Cambridge Working Papers in Economics 0318  
Daunton, D. (2002) 'British taxation from the Napoleonic wars to the First World War', memo

*Datasets:*

- Public spending and political institutions in 12 Western European countries, 1830-1938  
Fiscal outcomes and the local franchise in 75 municipal boroughs in England and Wales, 1865-1888  
Fiscal outcomes and the quality of democracy in 80 countries in 1995

## **Financial Econometrics Programme**

*Sponsors*

Department of Applied Economics  
Academics

*Duration*

ongoing

*Project Members*

S. Satchell  
A. Sancetta  
J. Zhang

*Associates*

T. Darsinos  
G. Christadoulakis

Satchell and Sancetta have written a number of papers investigating issues on financial risk. They have also submitted a successful application to the ESRC for two years' funding for a Research Associate (Sancetta) to investigate the statistical properties of soft commodity prices and the implication for soft-commodity derivatives.

Satchell and Zhang have worked on constructing house price forecasts for the UK housing market. The essential idea is to incorporate different house price forecasts such as Halifax, Nationwide and the Office of the Deputy Prime Minister, into a combined forecast of the land registry house price. In this they collaborated with Dr Theo Darsinos, currently employed by Deutsche Bank and Dr George Christadoulakis, currently at the Bank of Greece. The methodology has become incorporated in the Financial Times House Price Index (FTHPI).

- Sancetta, A. (2003) 'Nonparametric Estimation of Multivariate Distributions with Given Marginals:  $L_2$  Theory', CWPE 0320, University of Cambridge  
Sancetta, A. (2003) 'Limit Theorems for the Empirical Kendall's Tau Process and its Bootstrap Approximation under Strong Mixing', mimeo  
Sancetta, A. (2003) 'Copula Based Monte Carlo Integration in Financial Problems', mimeo  
Sancetta, A. and Satchell, S. (2003) 'The Copula Function as a Model and Approximation to Multivariate Distributions', mimeo  
Sancetta, A. and Satchell, S. (2003) Calculating Hedge Fund Risk: The Draw Down and the Maximum Draw Down (with Steve Satchell)  
Sancetta, A. and Satchell, S. (2003) Molten Lava Meets Market Languor (with Steve Satchell), *Quantitative Finance* 2 (6), 2002  
Sancetta, A. and Satchell, S. (2003) Changing Correlation and Sharpe's Model, mimeo

- Sancetta, A., Lande, G. and Satchell, S. E. (forthcoming) 'Draw Downs as a Measure of Hedge Fund Risk: Some Stylized Facts' in G. N. Gregoriou, V.N. Karavas and F. Rouah (eds), *Hedge Funds: Inside the Black Box Using A Quantitative Approach*, Washington: Beard Books
- Sancetta, A. and Satchell, S. (2003) 'Optimal Draw Down Portfolios', mimeo

## **Application of Bayesian Model Averaging to Volatility Forecasting and Risk Management**

### *Sponsor*

Department of Applied Economics

### *Project Members*

H. Pesaran

P. Zaffaroni

Forecasting conditional volatility and conditional cross-correlations of financial asset returns is essential for optimal asset allocation, managing portfolio risk, derivative pricing and dynamic hedging. Volatility and correlations are not directly observable but can only be estimated using historical data on asset returns. Many alternative parametric and non-semiparametric specifications do exist, although when looking at large scale problems only a limited number of options are computationally feasible.

In order to overcome some statistical problems associated with the Riskmetrics approach and, at the same time, to allow the multivariate GARCH to handle large scale applications, a number of approaches have recently been advanced in the literature, such as orthogonal GARCH (Alexander 2002), where the observable are orthogonalised by principal components before applying the GARCH filter. Engle (2002) introduced the dynamic conditional correlation (DCC) model.

The DCC model generalises the constant correlation model of Bollerslev (1990). This work focuses on these and other alternative approaches to multi-asset volatility modelling, in the case where the number of assets under consideration is relatively large, of the order of 20-30 assets, and considers the application of recent developments in model evaluation and model averaging techniques to multi-asset volatility models. This is important both for construction of efficient portfolios as well as for evaluation of existing portfolios.

In the econometric literature models are often evaluated by their out-of-sample forecast performance using standard metrics such as root mean square forecast errors (RMSFE). The application of this approach to volatility models is subject to a number of difficulties. As pointed out above, volatility is not directly observable and is often proxied by square of daily returns or more recently by the standard error of daily returns using intra-day observations, known as realised volatility (see, for example, Andersen et al. (2000)). In multi-asset contexts the use of standard metrics such as RMSFE is further complicated by the need to select weights to be attached to different types of errors in forecasts of individual asset volatilities and their cross-volatility correlations.

A more satisfactory approach would be to compare different volatility models in terms of their performance in trading and risk management. Using this framework we propose to develop simple criteria for evaluation of alternative volatility forecasts by examining the historical VaR performance of their associated portfolios. The approach is general and can be applied to strategic

asset allocation problems that require volatility forecasts over relatively long periods as well as more traditional VaR problems with horizons ranging from a single day to a month.

Faced with a large number of possible models the general tendency in the econometric literature has been to select the 'best' model using a variety of model selection criteria such as Akaike Information Criteria or the Schwartz Bayesian Criterion. In this paper we shall consider an alternative model pooling (or averaging) procedure, where risk of model uncertainty and its diversification via Bayesian model averaging will be emphasised. In this way, following Granger and Pesaran (2000), we hope to present a more unified treatment of the empirical portfolio analysis from a decision-theoretic perspective.

Zaffaroni, P. (2003) Estimating and forecasting volatility with large scale models: theoretical appraisal of professionals' practice

### **Whittle estimation theory of exponential volatility models with arbitrary degree of memory**

*Sponsor*

Department of Applied Economics

*Project Member*

P. Zaffaroni

This work establishes the asymptotic properties of the Whittle estimator, namely the frequency domain approximation to the Gaussian loglikelihood, for the class of models whereby the conditional variance is the exponential of a linear process. An arbitrary degree of asymmetry of the models is allowed which implies that the results cover the case of EGARCH models, GJR models as well as many SV models. A strong consistency and asymptotic normality has been found, just requiring bounded fourth moment of the log conditional variance.

Both short and long memory in terms of the dynamic effect of innovations to the conditional variance are allowed, as is a wide family of distribution of the innovations including Zaffaroni's fat-tail distribution such as the Generalized error distribution and the Student t distribution. An extensive Montecarlo exercise assesses the small-sample performance of the estimator.

## **PHILOSOPHY OF ECONOMICS AND ECONOMIC METHODOLOGY**

### **Theorising Social Ontology**

*Sponsor*

Department of Applied Economics

*Project Member*

P. Faulkner

My research output for the year consists of one published paper, one working paper (joint with Jochen Runde) and the completion of my doctoral dissertation. All three examine aspects of the conceptualisation of human agency and decision-making in mainstream and heterodox

economics.

During the year I was awarded the International Network for Economic Method prize for most original paper by a young scholar on economic methodology published during 2002 (for 'The Human Agent In Behavioural Finance: A Searlean Perspective', published in the *Journal of Economic Methodology*, March 2002).

In March 2003 I submitted an application to the British Academy Postdoctoral Fellowship competition. Despite my research proposal ('Theorising the basic categories of social reality: a critical comparison of the contributions of John Searle and critical realism') being graded A+ by the British Academy, my application was ultimately unsuccessful.

This year also saw the formation of the Cambridge Social Ontology Group (CSOG), an interdisciplinary group concerned with the study of social ontology ([www.csog.group.cam.ac.uk](http://www.csog.group.cam.ac.uk)). Its first event, a conference on Technology and Ontology, took place in September 2003 (in association with the CMI project Understanding the Development and Commercialisation of Digital Technology). Further CSOG events and research projects are planned.

Faulkner, P. (2002), 'Some Problems with the Conception of the Human Subject in Critical Realism,' *Cambridge Journal of Economics*, Vol. 26, No. 6 (November), 739-751

Faulkner, P. (2003), *Three Essays on Intentionality, Rationality and Economic Agency*, PhD dissertation

Faulkner, P. and Runde, J. (2003), 'Information, Knowledge and Modelling Economic Agency,' unpublished working paper.