

Laura Gáti

Boston College, Dept. of Economics
140 Commonwealth Avenue
Chestnut Hill, MA 02467

gati@bc.edu
+1 857-999-5220
https://sites.google.com/view/lauragati

November, 2019

Dear Members of the Review Panel,

Please consider my application to participate in the NBER Behavioral Macroeconomics Research Boot Camp. I am a Ph.D. candidate in Economics at Boston College in the dissertation stage. My research interests are Macroeconomics and Monetary Economics with a particular attention to expectations.

Enclosed you may find my curriculum vitae and a description of my current research. The recurrent theme of my work is how to design monetary policy optimally when expectation formation is either nonrational or is subject to information frictions. My project "Monetary Policy & Anchored Expectations" asks what novel constraint potentially unanchored expectations may mean for monetary policy. "Talking in Time - Dynamic Central Bank Communication" investigates how dynamics limits the scope of optimal disclosure for monetary policy. In future work I plan to expand this research agenda with further behavioral elements in expectation formation. For this reason I am applying to the Behavioral Macro Boot Camp to get a more complete overview of approaches to model nonrational expectations. I am happy to answer any questions you may have. My dissertation advisor Ryan Chahrour is writing a letter on my behalf.

Thank you for your consideration.

Sincerely,
Laura Gáti

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Fields

Monetary Economics & Macroeconomics, with Special Interest in Expectations

Education

Boston College, USA
PhD in Economics — Expected 2021

Boston College, USA
Master in Economics — 2016

University of Bern, Switzerland
Master in Art History and Curatorial Studies — 2014

University of Bern, Switzerland
Master in International and Monetary Economics — 2013

University of Bern, Switzerland
Bachelor in Economics, Major: Economics, Minor: Art History — 2011

Working Papers

Monetary Policy & Anchored Expectations

Do Long-Horizon Expectations Matter for New Keynesian Models?

Talking in Time - Dynamic Central Bank Communication

ICT-Specific Investment Shocks and Economic Fluctuations - Evidence and Theory of a General-Purpose Technology (with Marco Brianti)

The feeling of the age: A quantitative analysis of the correlation between novelistic and economic sentiment (with Daniella Gáti)

Presentations

2019 (including scheduled)
NBER Young Scholars Workshop on the Economics of Artificial Intelligence (Toronto), Swiss Economists Abroad, 14th End-of-Year Conference (Geneva)

2018
Swiss Economists Abroad, 13th End-of-Year Conference (Zurich)

Fellowships and Awards

Graduate Fellowship, Clough Center for the Study of Constitutional Democracy	2019-20
Graduate Fellowship, Clough Center for the Study of Constitutional Democracy	2018-19
Conference and Research Grant, Graduate Student Association	2019
Teaching Award, Donald J. White Award for Teaching Excellence	2018

Professional Experience

Research Assistant for Professor Ryan Chahrour, Boston College	2015-2017
Research Assistant at the Inflation Forecasting Department, Swiss National Bank	2014-2015

Teaching Experience

Boston College

Primary Instructor, Principles of Macroeconomics	Fall 2019
Teaching Assistant, Principles of Macroeconomics, Professor Chandini Sankaran	Spring 2019
Teaching Assistant, Principles of Microeconomics, Professor Tracy Regan	Fall 2018
Teaching Assistant, Principles of Macroeconomics, Professor Sam Richardson	Spring 2018
Teaching Assistant, Principles of Microeconomics, Professor Tracy Regan	Fall 2017

University of Bern

Teaching Assistant, Intermediate Macroeconomics, Professor Carlos Lenz	Fall 2014
Teaching Assistant, Principles of Macroeconomics, Professor Nils Herger	Spring 2014
Teaching Assistant, Intermediate Macroeconomics, Professor Carlos Lenz	Fall 2013
Teaching Assistant, Principles of Macroeconomics, Professor Nils Herger	Spring 2013

Referee

Review of World Economics

Other

Languages: English, Hungarian (native), German, Swedish, Danish, French

Programming Skills: Matlab, Mathematica, C++, Groovy, Stata

PHD Courses Completed

Spring 2017

Empirical Methods in Macro and Finance, Professors Pablo Guerron and Dongho Song

International Macroeconomics, Professor Jaromir Nosal

Applied Macroeconomics, Professors Robert King and Adam Guren, Boston University

Applied Econometrics, Professor Christopher Baum

Fall 2016

Advanced Macro: Computation, Estimation and Applications, Professor Ryan Chahrour

Monetary Economics II, Professor Fabio Schiantarelli

Time Series Econometrics, Professor Zhijie Xiao

International Finance, Professor Rosen Valchev

Spring 2016

Micro Theory II, Professors Utku Unver and Uzi Segal

Macro Theory II, Professor Susanto Basu

Econometric Methods, Professor Arthur Lewbel

Fall 2015

Micro Theory I, Professors Marvin Kraus and Hideo Konishi

Macro Theory I, Professor Fabio Schiantarelli

Math for Economists, Professor Peter Ireland

Statistics, Professor Zhijie Xiao

Forecasts & Fluctuations
The Intersection between Expectations and Monetary Policy

Laura Gáti*
Boston College

Behavioral Macroeconomics Research Boot Camp
Research Description

November 2, 2019

The main theme of my research is the role of economic forecasting behavior for business cycle fluctuations. Specifically I am interested in the ways expectation formation that deviates from either full information or rational expectations (FIRE) leads to different dynamics at business cycle frequencies compared to the predictions of FIRE macro models. In conjunction, I ask what the consequences of nonrational expectations or incomplete information are for the optimal design of monetary policy. I am applying for the NBER Behavioral Macro Research Boot Camp to both get feedback on my past work in this area as well as inspiration for future research projects.

My most recent work, "Monetary Policy & Anchored Expectations," investigates whether endogenous anchoring of expectations imposes a novel constraint on monetary policy. Following Carvalho et al. (2019), I model anchoring as an adaptive learning environment in which agents attempt to learn the long-run mean of inflation and update their forecasting rule in every period. Importantly, the choice of whether to use a decreasing or a constant gain when updating is endogenous. This allows me to think of expectations as anchored when agents choose a decreasing gain. By contrast, when forecasting performance is poor, agents switch to a constant gain; expectations become unanchored.

*Department of Economics, Boston College, Chestnut Hill, MA 02467, U.S.A. Email: gati@bc.edu

This framework sheds light on why central banks may not obey the Taylor rule, a phenomenon that rational expectations models struggle to explain. For example, the fact that the Federal Reserve is currently lowering the Federal funds rate despite a strong labor market and inflation close to the 2% target is puzzling from a New Keynesian perspective. My work instead suggests that the stance of long-run expectations is a variable that the Fed needs to monitor and manage explicitly. In light of the recent downward drift of long-run inflation expectations, the Fed's expansionary policy can be understood as an attempt to keep expectations anchored at the 2% target.

Another project, "Talking in Time - Dynamic Central Bank Communication," investigates how a central bank should design its communication policy optimally when the communication game is dynamic. The paper is thus a dynamic Bayesian Persuasion game à la Kamenica and Gentzkow (2011) where the private sector's expectations are rational but information is imperfect. The novelty of the project is to highlight that in a dynamic setting, the private sector's prior beliefs become endogenous to central bank communication. The optimal level of disclosure will thus be strictly lower in a dynamic setting than in a static one.

In future work, I plan to continue my investigation of nonrational expectation formation. As an example, I am interested in exploring how confirmation bias can contribute to bubbles in financial markets. My intention is to use the inputs from the Boot Camp to carve out several new research projects on how expectations are formed on the one hand and how they affect the optimal policy design on the other.

References

Carvalho, C., S. Eusepi, E. Moench, and B. Preston (2019). Anchored inflation expectations. *Available at SSRN 3018198*.

Kamenica, E. and M. Gentzkow (2011). Bayesian persuasion. *The American Economic Review 101*(6), 2590–2615.

Ryan Chahrour

Boston College
Department of Economics
140 Commonwealth Avenue
Chestnut Hill, MA 02467
ryan.chahrour@bc.edu

November 25, 2019

Letter in support of Laura Gáti

Dear NBER Behavioral Macro Group:

I write in strong support of Laura Gáti's application. I am supporting Laura's application to both the behavioral dissertation fellowship and the "boot camp" and I am hopeful that she will earn the chance to benefit from these opportunities.

I have known Laura for over four years now, as my research assistant during her first two years at Boston College, as a student in my second year PhD course, and as her academic advisor as she develops her dissertation. Laura has impressed me since we first met with her enthusiasm for macroeconomics, her strong work ethic, and the care she takes in thinking through economic questions. Laura already has two advanced projects that will form the core of her dissertation, and her third project is well underway. This track record puts Laura in an excellent position to complete her dissertation over the next year and I think she is on track to be one of Boston College's more successful students in recent years.

Let me begin by describing some of Laura's many general strengths. Foremost, Laura is an excellent self-directed learner who works hard at getting details right. As a research assistant, and then as a student in my class, Laura quickly learned the necessary technical tools — I teach and use several — with little more than the basic outlines from me. As a research assistant, she was always enthusiastic about the work and produced high quality results, especially when doing computational work or vetting my own theoretical arguments. As a student, she was the second strongest in my course (out of 10) and again did an excellent job on all the assignments.

From this strong base, Laura has transitioned well to being an effective and insightful researcher. Her first complete project is joint with fellow PhD student Marco Brianti, in which she seeks to identify and assess the importance of endogenous movements in productivity. In this project, she has a clever identification scheme, and several nice results; I could easily imagine that paper landing in a top field journal like the AEJ:Macro in the future. This project represents the first time Laura has done extensive empirical work, and she has done a nice job grappling with the challenges of mapping theory to reality. In this project, she identified a big question and approached it in an insightful way: all this suggests that she will produce the kind of research that has broader impacts going forward.

Since then, Laura has become increasingly interested in behavioral macroeconomics, and in particular in alternative models of expectations formation. Laura's main research objective is to understand how alternative models of expectations formation are relevant to the design of central bank communication and the ability of the central bank to achieve their macroeconomic objectives. Towards these objectives, Laura has initiated two main research projects.

In the first of these projects, Laura asks: what should a central banker communicate to markets given that markets and a central banker may have different underlying objectives? For example, central bankers may be focused on a longer run outcome but markets are more interested in the short-term economic outlook. These two objectives may be correlated, but they are not identical.

In cases such as this, the central bank faces a tradeoff between speaking more about the fundamental it cares about, in which case markets may ignore its pronouncements, and speaking about the things markets care about, in which case markets may react to central bank pronouncements, but not in the desired way. Laura has developed this intuition in a series of static models and now seeks to develop the idea in a fully recursive dynamic framework.

In the second of these projects, Laura investigates how central banks might better achieve anchoring of inflation exceptions. Policy makers have long worried about the possibility that inflation expectations may become "unanchored", but lack a comment model to capture the phenomenon or study how policy affects it. Laura's ongoing research here has the potential to be extremely interesting both from an academic perspective and for policy makers who want to use economic theory to guide their policy choice and to communicate those choices.

Recently, Laura has been honored as a Clough scholar at Boston College. This fellowship is part of an interdisciplinary program for graduate students that seeks to answer big questions related to law, governance, and the intersection of research and public service. In this capacity and others, Laura has demonstrated her commitment to consider the societal impact of alternative policies and to make her research relevant in a broader context.

I am excited at the prospect that Laura might earn either of these opportunities with the NBER. Anyone who interacts with Laura will benefit greatly from her thoughtful questions and insightful comments. She is truly a motivated and ambitious colleague who is growing quickly as an economist, and who is eager to apply her knowledge in broader contexts. I am confident she will would benefit greatly from any support the group provides!

Sincerely yours,



Ryan Chahrour