Karim M. Abadir, Gabriel Talmain

“Forecastable timings of recession and recoveries: Econometric implications of a dynamic GE model with heterogeneous firms”

Abstract: The timing of the recession was predictable, and predicted publicly, and so were the different timings of various recoveries. The same predictability goes for macro and financial aggregates. Our record of predictions for these has been public for the last 10 years. In this talk, I go through a very basic summary of the features of the dynamic General Equilibrium model that has generated these predictions, and its econometric implications. The econometrics that arises is an alternative to integrated time series, and therefore also an alternative to co-integration. This is illustrated with an application to S&P500, getting more than 50% predictability of annual *returns* (rather than prices) by just having GDP as an explanatory variable in our dynamic model.