Research agenda

Dr. Oulatta

My area of expertise is in macroeconomics, specifically financial economics, and macro-econometrics. I prioritize macro-relevant topics in my research curriculum. My work is centered on macroprudential policies, financial stability, and the role of monetary policy in minimizing macroeconomic volatility in emerging and advanced economies.

I came to an understanding that without solving the short-run macroeconomic issues first, it would be difficult for countries to progress through the various stages of growth. For instance, without price stability, national wealth would be unstable and foreign direct investment would be lower. Additionally, poor fiscal sustainability would lead to severe debt feedback effects, which would harm future consumption and growth.

Additionally, without an active exchange rate policy, it would be difficult for countries to remain competitive and attain the diffusion stages of growth. Thus, understanding that the short-run macroeconomic issues are equally important in stabilizing economic performance, my contemporary research curriculum focuses primarily on short-run macroeconomic issues in emerging and advancing economies. My research papers emphasize the use of rigorous statistical models (for example, survival analysis, vector autoregression, etc.) and key macroeconomic models (for example, New Keynesian DSGE models).

**Macroeconomics theory research agenda:**

- Monetary Policy and Asset Returns in Vietnam (Accepted conference paper)

This paper assesses the significance of the asset price channel of monetary policy in Vietnam. We estimate a New Keynesian (DSGE) model using Bayesian techniques and successfully match the relevant empirical results with a large-scale factor-augmented vector autoregression model (FAVAR). We find robust empirical evidence of a significant asset price channel of monetary policy in Vietnam: impulse responses of stock returns to monetary policy shocks (both positive and negative) are significant and consistent with standard macroeconomic theory. This is the first study in literature to provide empirical evidence of the impact of adverse and expansionary monetary policy shocks on different sectors of the Hanoi and Ho Chi Minh Stock exchanges by relying on an FAVAR model. More importantly, the results derived here highlight the relative importance of incorporating a rich-data environment in identifying monetary policy shocks. Here, we demonstrate that the FAVAR model provides consistent and more meaningful impulse responses in contrast to the widely used small-scale recursive VARs.

- Inflation Targeting for Vietnam (Accepted conference paper)

Taylor's (1993) rule provides a standard for implementing inflation targeting. However, the latter rule does not directly address open-economy concerns such as exchange rate volatility. Excessive fluctuations in the exchange rate can be a major problem for a small-open economy whose central bank priorities lie not only in keeping inflation stable but also in minimizing excessive fluctuations in dollar reserves. Therefore, for Vietnam, which is a country that is highly vulnerable to exchange rate volatility and terms of trade shocks, this paper illustrates the point that optimal inflation targeting would require a central bank to take additional measures such as responding systematically to transitory import price shocks, including making needed corrections to the exchange rate. Consequently, this paper derives a backward-looking interest rate rule that embodies the case of a managed-float and examines it stabilizing properties in contrast to a standard Taylor's (1993) rule and the historical monetary policy of the central bank of Vietnam (SBV). For the benchmark rule derived here, the key estimated monetary response parameters are calibrated via vector autoregression (VAR). The theoretical simulations suggest that the benchmark rule is largely superior to the historical monetary policy rule. However, when compared to Taylor's (1993) rule, the benchmark rule is mostly preferable when preferences for foreign exchange reserves and low-interest rate volatility equally supersede concerns for inflation volatility.

- Modeling Inflation in the WAEMU Zone (working paper)

This paper introduces a simple AS-AD model to examine the determinants of inflation for the members of the West African Economic and Monetary Union (WAEMU). On the supply side, we found France's inflation, rainfall, and real crude oil inflation to be the most important drivers of domestic inflation. On the demand side, we found the output gap to be a significant determinant of domestic inflation. Given the estimated size of the effect of the output gap on inflation, we can conclude that the short-run aggregate supply curve is relatively flat; bolstering the Keynesian view that monetary policy could be extremely effective in stabilizing output in the short-run.

- Modeling inflation in Tanzania (working paper)

This paper investigates the causes of inflation in Tanzania to advise local policymakers on how to reduce inflationary pressures. The key findings suggest that inflation has both long-run and short-run implications. Disequilibrium from long-run monetary equilibrium and long-run purchasing power parity have lasting effects on inflation. Whereas in the short run, inflation is mainly driven by rainfall, bank lending conditions, fiscal policy, and external inflationary pressures. Data show that Tanzanian policymakers can safely rely on temporary mechanisms such as import taxes and interest rates to alleviate inflationary pressures. However, to bring down inflation permanently (for example, bringing down the relative high weight of food expenditures in the CPI), the economy would require structural reforms capable of boosting the natural rate of agricultural output. Emphasizing smart farming techniques and improving food manufacturing would provide the productivity boost needed to put downward pressure on food inflation permanently.

### Applied financial economics research:

- Understanding Chronic Bank Failures in Minnesota (under review)

Minnesota experienced an unprecedented increase in bank failures during the Great Recession. The conditions of the 23 banks that failed during the Great Recession are not well documented in the literature: we contribute to the literature by addressing this issue. This study relies on survival analysis to model the risk of bank failure. Moreover, we explore the econometric gains of incorporating several parametric distributions in modeling the baseline hazard function. For the Great Recession, we show the relative importance of the lognormal distribution in modeling the baseline hazard rate. We find that the key bank-specific factors that inflate the instantaneous rate of bank failure during the Great Recession include higher exposure to nonperforming real estate loans, moral hazard in bank lending, poor earning capacity to cover loan defaults, and inefficiency in managing interest expenses on deposits. For macroprudential implications, our findings provide empirical evidence of contagion in the banking sector and highlight the relative importance of regulatory capital in understanding bank survival in Minnesota during the Great Recession.

- Concentration Risk and Housing Booms (working paper)

Prior to the global financial crisis of 2007-2008, the US banking sector experienced an unprecedented increase in asset concentration, triggered by rapid accumulation of mortgage-related securities and residential loans, which eventually exposed the entire financial system to insolvency risks when the housing bubble burst in November 2007. Understanding the relative importance of asset concentration risk in explaining the latest global financial crisis, this study introduces a monthly aggregate index of concentration risk for banks and conducts a stress test to examine the specific role of housing price booms in fueling systemic risk behavior in the banking sector. Using a structural vector autoregression model with exogenous variables and a long-run identification scheme, this study finds that house price booms contribute to an increase in aggregate concentration risk in the US banking sector.

- Commodity Price Uncertainty and Bank Lending: Evidence from Leading Cocoa Exporters (working paper)

Most studies prioritize the mean-effect of commodity prices (first moment shocks) in explaining financial developments in developing countries. Contrastingly here, this manuscript highlights the equal importance of the uncertainty-effect of commodity prices (second-moment shocks) in shaping financial conditions in developing countries. Using the top cocoa-exporting countries as a case study, this paper illustrates a new bank lending channel through which the uncertainty vis-`a-vis international cocoa price returns leads to a severe contraction in commercial loans supply in Brazil, Cameroon, Colombia, Cote d'Ivoire, Dominican Republic, Ecuador, Ghana, Indonesia, Mexico, Nigeria, Peru, and Uganda; hence the "beguiling coincidence". The magnitude of the empirical results found here amplify the necessity for policymakers in the top cocoa-exporting countries to consider this new bank lending channel as an important source of lending frictions when assessing and designing macroprudential policies aimed at mitigating banking crises in their respective countries.

**Applied economic research:**

- Adverse Labor Market Outcomes and Hate Crimes (under review)

This paper investigates linkages between hate crimes and adverse labor market conditions by relying on a dynamic panel regression model that accounts for endogeneity, non-linearity, and time-invariant unobserved heterogeneity in the panel. The main empirical findings evince a dynamic nonlinear relationship between hate crimes and adverse labor market outcomes proxy by the unemployment rate, the initial unemployment claims rate, and the proportion of adults out of the labor force. More importantly, for the sample size considered here, this is the first study in the empirical literature to document a robust convex relationship (U-shaped) between hate crimes and adverse labor market conditions in the United States. Essentially, hate crimes trend upward when conditions in the labor market deteriorate excessively or when the unemployment rate reaches levels far beyond the official natural rate of unemployment (for example, when the unemployment rate rises above eight percent).

- Improving labor market outcome for skilled women in Kisumu (grant proposal)

Gender inequality in employment is increasingly becoming more prominent in developing countries. The motivation behind this study hinges on the desire to improve labor outcomes for educated women in Kenya by identifying the key factors that contribute to the low participation rate of women in the formal sector. Secondly, the Africa Center for Strategic Policy (ACSTRAP) aims to rely on this study's findings as means to design a policy intervention program in coordination with the location universities and domestic companies in Kisumu to create a testable labor program capable of enhancing the participation rate of skilled women in the non-agricultural sector. I am conducting a study that aims to identify the underlying drivers of unemployment among skilled women, by disaggregating unemployment status in three components: (i) voluntary unemployment, (ii) involuntary unemployment, (iii) and underemployment. This study aims to develop the basis for a policy intervention, by relying on an unbiased sample of skilled female workers who will be participating in the second phase of the study.

Upcoming research:

- Understanding the role of central bank liquidity swaps in explaining macroeconomic stability.
- The role of the discount window in promoting macroeconomics stability.
- The effect of macroeconomic shocks in explaining banking performance.