

## CONTENTS

Introduction to the series	vi
Preface	vii
List of Tables	xiii
Introduction	xv
<b>PART I: INFLATIONARY EXPECTATIONS IN MACROECONOMIC MODELS</b>	
Chapter 1. Models of expectations and the Phillips curve	3
1.1. Wage inflation and formation of expectations	5
1.2. Estimation procedure	10
1.3. Empirical results	11
1.4. Summary of results	14
Chapter 2. Simultaneity in wages, prices, and unobservable price expectations	21
2.1. Structural model	23
2.2. Estimation of the measurement error variance by using the overidentifying restrictions	26
2.3. A general method of estimation	30
2.4. Empirical results	34
2.5. Tests of error-in-variables	36
2.6. Effects of Wage-Price Controls	39
2.7. Conclusions	42

Chapter 3. Rational expectations in macro models	51
3.1. Estimation methods with a general covariance structure	54
3.2. <i>Empirical results</i>	57
3.3. Real effects of unanticipated inflation	64
3.4. Tests of the rational expectations hypothesis (REH) and the implications of different information availability assumptions	67
3.5. Further tests of REH using data-based distributed lag representations	72
3.6. McCallum's model and some limited-information estimates	76
3.7. FIML estimation of the structured model	80
3.8. Further implications of REH in McCallum's model	81
3.9. Conclusions	89
PART II: INFLATIONARY EXPECTATIONS IN FINANCIAL MARKETS	
Chapter 4. Inflationary Expectations: Their formation and interest rate effects	109
4.1. Interest rates and models of expectations	112
4.2. The results	113
4.3. Structural change around 1960	117
4.4. Conclusions	119
Chapter 5. Rational expectations and the Fisher effect	125
5.1. Search for a full Fisher effect	125
5.2. Maximum likelihood estimates	128
5.3. Three-indicator models: systematic errors in measurement	139
5.4. Conclusions	144
Chapter 6. Variability of real interest rates and the efficient market hypothesis	151
6.1. A structural model of <u>ex-ante</u> real rate	153
6.2. Estimation of covariance between <u>ex-ante</u> real rate and anticipated inflation	155
6.3. Rationality of Livingston's survey data	158
6.4. An estimated real rate series	161
6.5. Conclusions	166

Chapter 7. Concluding Remarks	175
Appendix A: Full-information maximum-likelihood estimation in triangular models	185
Appendix B: The maximum likelihood framework for generating price forecasts from SRC data	197
Appendix C: Sources and description of variables	211
Footnotes	223
References	229
Index	245