

## **Insu Kim**

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### **Education**

Ph.D., Economics – University of California, Riverside, expected March 2010.

Dissertation Title: “Essays on Inflation and Wage Dynamics: Theory and Evidence.”

Committee: Dr. Marcelle Chauvet (Chair), Jang-Ting Guo, and Aman Ullah

Fields: Macroeconomics and Econometrics, Minor in Microeconomics

Graduate Studies – Texas A&M University, 2003-2005. (Passed Qualifying Exams)

B.A., Economics – Hanyang University, Seoul, Korea, 2002.

### **Research Interests**

Primary: Macroeconomics, Monetary Policy, and Business Cycles.

Secondary: Applied Econometrics.

### **Completed Papers**

1. **Job Market Paper:** “Dual Wage Rigidities: Theory and Some Evidence,” submitted to the *Review of Economic Studies*.
2. “The Microfoundations of Inflation Persistence in a New Keynesian Phillips Curve Model,” with Marcelle Chauvet, submitted to the *American Economic Review*.
3. “Adaptive Expectations and Inflation Persistence” with Jie Li and Marcelle Chauvet.
4. “Inflation Dynamics: the Changing Role of Expectations and Inertia,” with Marcelle Chauvet.
5. “Irrational Bias in Inflation Forecasts” with Minsoo Kim, submitted to the *Journal of Monetary Economics*.

### **Work in Progress**

1. “Forecasting Horizons and Monetary Policy” with Marcelle Chauvet and Jie Li.
2. “Asymmetric Information Between Consumers and Firms and Its Implication to Inflation Dynamics.”

### **Grants, Honors, Awards**

Ph.D. Fellowship, University of California, Riverside, 2005 - 2009.

TAship: University of California, Riverside, 2009.

Conference Travel Grant, Graduate Student Association, 2009.

Merit Scholarship, Texas A&M University, 2004.

### **Presentations**

- The 17<sup>th</sup> Annual Meeting of the Society for Nonlinear Dynamics and Econometrics, Atlanta Fed, Atlanta, April, 2009. Presented the paper: “Microfoundations of Inflation Persistence in a New Keynesian Phillips Curve Model.”
- UCR “Conference on Business Cycles: Theoretical and Empirical Advances,” Riverside, April 2009. Presented the paper: “Microfoundations of Inflation Persistence in a New Keynesian Phillips Curve Model.”
- The 46<sup>th</sup> Annual Meeting of the Missouri Valley Economics Association (MVEA), Kansas, USA. Paper: “Adaptive Expectations and Inflation Persistence,” *presented by co-author, Jie Li.*

### **Teaching Experience**

Teaching Assistant – University of California, Riverside, 2006 - Present:

- Introduction to Microeconomics
- Introduction to Macroeconomics
- Introduction to Econometrics
- Principles of Economics
- Microeconomic Theory
- Macroeconomic Theory

### **Computer Skills**

Matlab, Gauss.

### **References**

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## **RESEARCH SUMMARY**

### **Dual Wage Rigidities: Theory and Some Evidence (Job Market Paper)**

This paper investigates wage dynamics assuming the potential presence of dual wage stickiness: with respect to both the frequency as well as the size of wage adjustments. In particular, this paper proposes a structural model of wage inflation dynamics assuming that although workers adjust wage contracts at discrete time intervals, they are limited in their abilities to adjust wages as much as they might desire. The dual wage stickiness model nests the baseline model based on Calvo-type wage stickiness as a particular case. Empirical results favor the dual sticky wage model over the baseline model that assumes only one type of wage stickiness in several dimensions. In particular, it outperforms the baseline model in terms of goodness of fit as well as in the ability to explain the observed dynamic correlation between wage inflation and the output gap – which most existing models have failed to capture.

### **The Microfoundation of Inflation Persistence in a New Keynesian Phillips Curve**

This paper proposes a way to endogenously generate inflation persistence within a profit-maximizing framework featuring sticky prices. Our paper responds to the criticism to ad-hoc approaches that directly incorporate lagged inflation into the Phillips curve assuming that a fraction of firms resets their prices by indexation or similarly rule of thumb without an association with microfoundations. In order to generate inflation persistence, we assume that although firms change their prices periodically, they still face convex costs that preclude them from completely adjusting their prices. In essence, our model combines both Calvo's (1983) pricing and the quadratic price adjustment cost proposed in Rotemberg (1982). While both features are designed to model sticky prices, they have different implications. Calvo's pricing is related to the frequency or timing of price changes, while Rotemberg's is associated with the size of price changes that firms face. The combination of these two features in a unified framework nests the New Keynesian Phillips Curve Model (NKPC) as a special case, and allows for a test of the importance and prevalence of each one in U.S. data. The proposed dynamic stochastic general equilibrium (DSGE) model is estimated using Bayesian techniques. The empirical results indicate that both types of price stickiness are highly significant, strongly supporting the proposed model – which is a micro-founded alternative to the ad-hoc hybrid NKPC and the sticky information Phillips curve.

### **Inflation Dynamics: the Changing Role of Expectations and Inertia**

This paper proposes and estimates an alternative new Keynesian modeling approach to evaluate the relative contribution of inflation expectations and inertia to inflation dynamics. Particular attention is given to avoid potential spurious regression analysis. Our findings indicate that while the rising inflation in the 1970s is likely to be connected with changes in inflation expectations, the positive inflation trend in the 1960s is related to the role of a lagged inflation term in the Phillips curve. The results also provide evidence that the role of inflation expectations differs substantially before and after 1980. In particular, the

coefficient associated with inflation expectations from the early 1980s to the end of the sample is half the values prevailing in the late 1960s and the 1970s.

### **Adaptive Expectations and Inflation Persistence**

This paper proposes a dynamic stochastic general equilibrium (DSGE) model with a simple version of adaptive expectations (e.g., Cagan 1956) to evaluate goodness of fit and forecasting performance. Although both models generate plausible responses to economic shocks, we find that a DSGE model with adaptive expectation outperforms a rational expectations DSGE model in several dimensions. First, adaptive expectations yield a better performance in tracking the U.S. data. Second, the estimated people's beliefs about future variables outperform forecasts obtained from vector autoregression systems. We also find that that under adaptive expectations the role of lagged inflation becomes redundant in fitting inflation dynamics.

### **Irrational Bias in Inflation Forecasts**

This paper investigates the hypothesis of rational expectations using inflation forecasts from the Survey of Professional Forecasters (SPF) and the Greenbook. We provide an alternative rational expectation test by measuring the degree of persistence of potential systematic mistakes. The test is obtained by solving a signal extraction problem that distinguishes between systematic and non-systematic forecast errors. The findings indicate highly persistent systematic mistakes, which are driven by the inefficient use of available information, and the test can not accept the rational expectations hypothesis. The estimated time-varying systematic errors can be used to improve the SPF and Greenbook inflation forecast performance substantially. This paper also documents evidence that the real interest rate plays a crucial role in explaining the level of bias that leads to under- and over predictions of actual inflation.