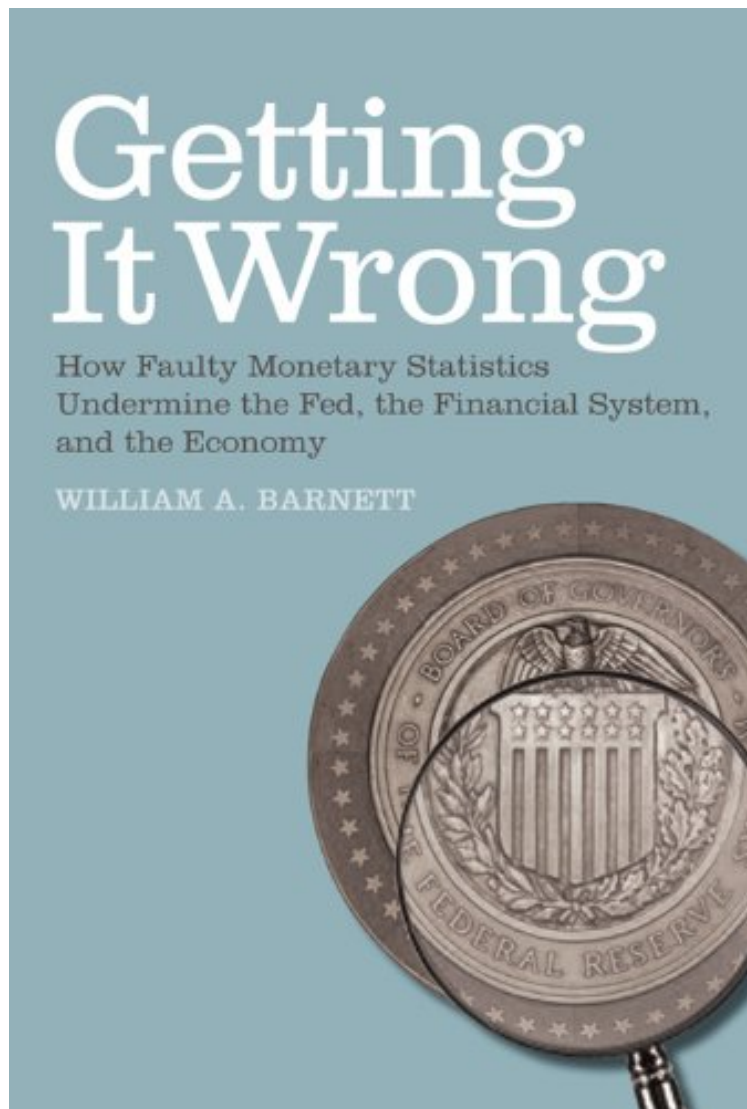


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## Getting it Wrong: How Faulty Monetary Statistics Undermine the Fed, the Financial System, and the Economy (MIT Press)

*William A. Barnett, Apostolos Serletis*  
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**William A. Barnett, Apostolos Serletis : Getting it Wrong: How Faulty Monetary Statistics Undermine the Fed, the Financial System, and the Economy (MIT Press)** before purchasing it in order to gage whether or not it would be worth my time, and all praised Getting it Wrong: How Faulty Monetary Statistics Undermine the Fed, the Financial System, and the Economy (MIT Press):

5 of 5 people found the following review helpful. The Federal Reserve's Data Cannot Be TrustedBy CustomerThe Federal Reserve constructs its measures of the money supply by simply adding up the dollar amounts in various

categories of assets. This is called a Simple Sum Aggregate. For example, the M2 measure includes cash, checking accounts, savings accounts, money market accounts, time deposits less than \$100,000, etc. It is obviously incorrect to treat time deposits the same as cash, since consumers do not spend cash the same way they spend money in time deposit accounts. Friedman and Schwarz, in their classic *Monetary History of the United States* (1970), recognized this important point, emphasizing that each category of monetary asset should be weighted by its degree of "moneyness". Friedman also acknowledged that he was unable to determine the proper weights in order to calculate a realistic measure of the money supply. Many others tried, but only Barnett succeeded. Barnett's measure of the money supply, based on the index number created by Francois Divisia in the 1920s, is called the Divisia Aggregate of the Money Supply. The present volume recounts the entire history of monetary aggregation, including the compelling evidence, both theoretical and empirical, that the Divisia Monetary Aggregates are "right" and the Federal Reserve's Simple Sum Monetary Aggregates are "wrong". To take but one example, the "velocity" of money is the number of times that money changes hands in a period of time. To hold cash, one gives up interest. If the interest rate is low, there is no penalty to holding cash. One would expect that if the interest rate increases, then velocity would increase, too; this happens for the Divisia Monetary Aggregates, but not for the Federal Reserve's Simple Sum Aggregates. Barnett traces the consequences of the Fed's continued insistence on getting it wrong. He writes (p. 133), "[M]onetary policy in recent decades might have been more expansionary than was realized by the Federal Reserve and thereby might have fed the bubbles. Also policy more recently might have been more contractionary than realized by the Federal Reserve at the start of the crisis." Noting that other central banks, e.g., the Bank of England, the Polish central bank, and the Bank of Israel all get it right when it comes to measuring the money supply, one must wonder, Why would the Federal Reserve intentionally "get it wrong"? You'll have to read the book to find out but, as Barnett writes, page 153, "It is tempting to conclude that the Federal Reserve has been producing inferior data simply by innocent mistake. But this is clearly not true. The Fed does not employ hundreds of stupid economists." The book recounts many disturbing incidents that testify to the Fed's lack of transparency and accountability. Barnett concludes (page 145), "This book documents the fact that the economics profession, financial firms, borrowers, lenders, and the central banks themselves have repeatedly been misled by poor central bank monetary data over the past half century." But the situation is worse than even that! The Fed has tried to prevent others from producing good data! One egregious incident, described on pages 27-28, was that in 2006, the Fed stopped supplying data others could use to construct Divisia indices of the money supply. It was as if the Fed was trying to prevent people from using reliable measures of the money supply, just as the housing bubble was nearing its peak. That the Fed would do this is heartbreaking to this economist, and it shows the Fed for what it is. In fact, I stumbled on to this book over my concern about QE1 and QE2, and the portent for (hyper?)inflation resulting from the Fed's actions. I knew the Fed's Simple Sum Aggregates to be worse than useless for analyzing inflationary trends, and a google search led me to this book. In case the Fed again decides to prevent me (or anyone else) from knowing the Divisia money supply indices, Barnett has seen to having them provided at the Center for Financial Stability, [...] where I will be checking in regularly to find out the latest Divisia numbers.

0 of 0 people found the following review helpful. Five Stars  
By Jacob Fangman  
Great Condition!  
0 of 0 people found the following review helpful. Five Stars  
By Dr. Houston H. Stokes  
A very important book that is very useful in my research.

Blame for the recent financial crisis and subsequent recession has commonly been assigned to everyone from Wall Street firms to individual homeowners. It has been widely argued that the crisis and recession were caused by "greed" and the failure of mainstream economics. In *Getting It Wrong*, leading economist William Barnett argues instead that there was too little use of the relevant economics, especially from the literature on economic measurement. Barnett contends that as financial instruments became more complex, the simple-sum monetary aggregation formulas used by central banks, including the U.S. Federal Reserve, became obsolete. Instead, a major increase in public availability of best-practice data was needed. Households, firms, and governments, lacking the requisite information, incorrectly assessed systemic risk and significantly increased their leverage and risk-taking activities. Better financial data, Barnett argues, could have signaled the misperceptions and prevented the erroneous systemic-risk assessments. When extensive, best-practice information is not available from the central bank, increased regulation can constrain the adverse consequences of ill-informed decisions. Instead, there was deregulation. The result, Barnett argues, was a worst-case toxic mix: increasing complexity of financial instruments, inadequate and poor-quality data, and declining regulation. Following his accessible narrative of the deep causes of the crisis and the long history of private and public errors, Barnett provides technical appendixes, containing the mathematical analysis supporting his arguments.

Leading up to the financial crisis, investors displayed an incorrect assessment of systemic risk and significantly increased their leverage and risk-taking activities. Barnett documents that better Federal Reserve data could have signaled the error in that view. This error led to the credit-driven, asset-price bubble in the US housing market. He also has shown that as a result of measurement errors, monetary policy was damaged, with tragic consequences. He is the world's foremost authority in the study of monetary and financial aggregation using index number and aggregation

theory. (James J. Heckman, University of Chicago and University College Dublin, Nobel Laureate in Economics) I would never fly in an airplane designed by an economist. Unfortunately, I have to live in an economy where policy makers listen to economists. Professor Barnett, a former rocket scientist, shows clearly how important it is that economists pay attention to details and teaches economists how to do far better. Until economists absorb these lessons, the policy makers they advise will be flying blind. (Kenneth L. Judd, Hoover Institution, Stanford University) Getting It Wrong is a gripping combination of colorful mini-biographies, memoir from a close witness to our financial troubles, and well-argued case for better monetary statistics. This book first makes you care about monetary aggregation and then masterfully shows you how it should be done. (Julio J. Rotemberg, William Ziegler Professor of Business Administration, Harvard Business School) Getting It Wrong is a magisterial treatment on the measurement of monetary aggregates by the world's foremost authority. Barnett informs us about how to get the measurements right. He also shows us how the Federal Reserve gets them wrong. Indeed, if Paul Volcker's dashboard would have displayed Barnett's monetary metrics, the severe 1981--82 recession might never have occurred. Alas, the Fed's money supply gauges remain in need of an overhaul by Barnett, a monetary master craftsman. (Steve H. Hanke, Professor, Johns Hopkins University, and Forbes magazine columnist) You would think that by now so much has been written about the causes of the 2007--08 financial crisis that nothing else needs to be said. This book persuasively explains why any such assumption would be wrong. It turns out that mis-measured money is another culprit that has not been given its due. Professor Barnett, in this remarkable book, corrects this oversight. Economists, public policy makers, and informed students of monetary policy will never think about the subject the same way after reading this path-breaking book. (Robert E. Litan, Kauffman Foundation Vice President for Research and Policy and Brookings Institution Senior Fellow) Getting It Wrong gives masterful insights into causes of the financial crisis beyond simplistic notions of 'greed' or 'failure of theory.' This book shows how faulty measures led to incorrect risk assessments and failure of policy makers, including the Fed. Using flawed gauges, policy makers promoted notions of a "Great Moderation" with reduced systemic risks and thereby ended up steering markets to crisis. William Barnett, a pioneer in economic measurement theory and practice, shows us how to do it right. (Jeffrey M. Wrase, Professional Congressional Staff Member) This book is a tour de force. Barnett argues that theoreticians have provided the tools for practitioners to deliver sound macroeconomic policies. The problem is that the Fed is not producing data based on best-practice principles, thereby distorting the information set available to practitioners and leading to misguided policies, misperceptions about systemic risk, and the crisis that erupted in 2008. Barnett navigates effortlessly through the interconnections between theory and policy. The result is a compelling and fascinating study of 'what went wrong,' and the making of a modern classic in economics. (George S. Tavlas, Director General, Bank of Greece; Alternate Member, ECB Governing Council; and Editor, Open Economies ) In this masterful book, William Barnett provides a compelling explanation of what went wrong in the years leading up to the worst financial crisis since the Great Depression, as well as a broader history of the last half-century of Federal Reserve policy-making. He presents clear and intuitive arguments to support the message that runs through his most important scholarly work -- that measures of the money supply, when properly constructed, accurately and reliably describe what monetary policy is actually doing -- using a separate section to fill in the details for more technically inclined readers. (Peter Ireland, Murray and Monti Professor of Economics, Boston College) This riveting read from William Barnett combines detailed and very deep knowledge of monetary history and precise economic theory, to provide a compelling personal view of the crisis in both the financial markets and in macroeconomic/monetary policy. Barnett is the leader in devising monetary aggregates, and he makes a strong case against alternative 'simple-sum' aggregators that the Fed and others employ. His attribution of partial blame to bad data and bad aggregates for the 'Great Recession' is novel, has merit, and is strongly argued. Some may argue that this too is a 'symptom' rather than a cause, of recurring 'cycles' in our type of economy, but Barnett is able to masterfully draw on his vast knowledge of many fields and his unusual command of current cultural and media influences to infuse his discussion of very deep theoretical and policy debates, making the book very readable and useful to noneconomists. (Esfandiar Maasoumi, Arts and Sciences Distinguished Professor, Emory University, and Editor of Econometric s) Whether you are a Wall Street professional, an academic economist, or simply interested in the Fed, Getting It Wrong is essential. William Barnett weaves personal vignettes into seminal monetary events, creating a riveting read. For the quant, Barnett -- an eminent economic scientist -- details his path breaking advances in monetary and financial measurement. With interest rates near record lows, Barnett's monetary theory and tools are needed more than ever for officials, investors, and the public. (Lawrence Goodman, President, Center for Financial Stability, Inc.) [A]n important contribution to our understanding of the \$2 trillion meltdown. (Bloomberg) About the Author William A. Barnett is Oswald Distinguished Professor of Macroeconomics at the University of Kansas, Director at the Center for Financial Stability in New York City, and Senior Fellow at the IC2 Institute at the University of Texas at Austin. He is Editor of the eminent journal Macroeconomic Dynamics and is coauthor with Nobel Laureate Paul A. Samuelson of the book Inside the Economist's Mind, translated into seven languages. He was on the staff of the Federal Reserve Board from 1974 to 1982.