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A Video Interview with James Hamilton

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Abstract

This manuscript lists questions from a video interview with James Hamilton at the 16th SNDE conference in San Francisco on April 4, 2008. The interview covers topics ranging from nonlinear time series analysis and monetary policy to energy prices.

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1. Introduction

James D. Hamilton is a Professor of Economics at the University of California San Diego, a position he has held since moving to California from Virginia in 1992. He has been a fellow of the Econometric Society for more than a decade. He is a research associate of the National Bureau of Economic Research, a *Journal of Econometrics* fellow, and has received 7 grants from the National Science Foundation during his distinguished career.

Jim's paper [2], "A New Approach to the Economic Analysis of Nonstationary Time-Series and the Business-Cycle," published in *Econometrica* in 1989 is one of the 75 most widely cited papers in economics. Han Kim, Adair Morse, and Luigi Zingales, "What Has Mattered to Economics Since 1970," credit the paper with 731 citations. It is by far the most influential paper in nonlinear time series analysis. Along with his textbook [3], *Time Series Analysis*, first published in 1994 by Princeton University Press, Hamilton's work has made him the leader in this growing field.

Another major theme of Hamilton's research has been monetary policy. He has published extensively on Federal Reserve activity [5] and is an expert of the Fed's policy instrument, the federal funds rate, [4], [7] and [9]. A third area of interest to Hamilton has been energy prices. From his early work on oil's impact on the macroeconomy [1] to his recent work on oil shocks [8], the role of energy prices on the business cycle is a continuing theme in his work.

Jim has recently tried to reach an audience outside of academics with his work on an economics blog called "Econbrowser" that he co-writes with Menzie Chinn of the University of Wisconsin. I hope to cover his academic and non-academic pursuits in this interview.

2. Background and motivation

1. How did you decide to become an economist?
2. You were an undergraduate at Colorado College and got your graduate degree at the University of California Berkeley. What were your formative experiences as a student? What was your thesis about? Who was your adviser? Did you work well together?
3. In 1992, you moved to the University of California at San Diego. With your arrival, UCSD formed a renowned department in time series analysis including two eventual Nobel Prize winners, Clive Granger and Rob Engle. What was it like working in a department with such a strong focus on time series?

3. Nonlinear time series

4. How did you become familiar with Markov switching models? What led you to apply them to business cycles, and what did you expect to find when you fit the model to US GDP growth?
5. What do you think are the important macroeconomic nonlinearities? Do you think the mainstream literature using DSGE models is paying enough attention to these stylized facts?
6. Adrian Pagan has been critical of your business cycle dating methods and thinks that macroeconomic nonlinearities are second order. Can you summarize your ongoing debate?
7. There has been an explosion of work in macroeconomics and in finance using Markov switching models, from the term structure of interest rates to option pricing. Where do you think the impact of this regime switching modeling has been the most significant and where have we learned the most from an economic point of view?
8. What do you think are the most promising extensions of your original Markov switching model? Are there any unresolved questions? How do you compare Markov-switching models with other time-varying models (e.g. stochastic volatility and drifting parameters)?
9. How much time did it take to write your text book? Will you ever write another or release a new edition?
10. Recently, you have been working with random fields. These have now been extensively used in financial economics, but less so in macro? Do you agree, and if so, why?

4. Monetary economics

11. You have frequently looked at Federal Reserve policy in the U.S. and the market for federal funds in particular. What have you learned about monetary policy from this line of research?
12. Are you supportive of the recent decision by the FOMC to publish its short-term and medium-term forecasts every quarter?
13. The Bernanke Fed has introduced a number of monetary policy innovations including a Term Auction Facility, a Term Securities Lending Facility, and a Primary Dealer Credit Facility. The New York Fed has also created a special purpose entity to manage securities that it has guaranteed from the Bear Stearns portfolio. Which of these, if any, do you think will be successful in stabilizing the liquidity crisis that appears to have begun in the mortgage market?

5. Oil prices

14. Did global political events help spark your interest in energy prices?
15. Do energy prices still play an important role in macroeconomic fluctuations?
16. Oil prices recently crossed the price of \$100 a barrel, exceeding in real terms their prices from the early 1980s. Where do you think oil prices will be 25 years from now? Will our economy still be strongly carbon based?

6. Politics and beyond

17. What motivated you to start your blog Econbrowser? Do you find it rewarding? Do you think this type of scholarly communication will continue?
18. What do you think you will be working on in 2018? What papers of yours do you think will be read 25 years from now?
19. What advice would you have for a student about to begin graduate study in economics? Would you encourage them to work in the area of nonlinear time series?

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