DSGE Modeling at the Bank of Thailand

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Outline of Presentation

I. Model

II. Preliminary simulation results
I. Model
• Model features: Phase I Model (Benes, 2006) augmented with
  – Capital and investment; wage rigidity (undertaken by modelers)
  – Consumption basket, previously consisting of domestically produced 
    and imported goods, expands to include part of exports
    (suggested by senior staff)

• Parameterization: calibration

• Model solution and simulation: IRIS
1 Households

The representative household maximizes

\[
\begin{align*}
E_0 \sum_{t=0}^{\infty} \beta^t \left\{ (1 - \chi) \log \left[ \frac{1}{1-\chi} (C_t^T - \chi H_t^T)\omega^T (C_t^X - \chi H_t^X)\omega^X \right] \times (C_t^N - \chi H_t^N)^{1-\omega^T-\omega^X} \right\} - \zeta \frac{L_t^{1+\eta}}{1 + \eta}
\end{align*}
\]

subject to

\[
\frac{1}{P_t} \left( P_t^T C_t^T + P_t^X C_t^X + P_t^N C_t^N \right) + \frac{P_t^T}{P_t} I_t + \frac{B_t}{P_t} \leq \frac{B_{t-1}}{P_t} (1 + i_{t-1}) + \frac{W_t}{P_t} L_t + \frac{R_t^K}{P_t} K_t + \sum_j \Phi_j
\]

\[
K_{t+1} \leq (1 - \delta) K_t + F(I_t, I_{t-1})
\]

where

\[
F(I_t, I_{t-1}) = \left[ 1 - \Phi_I \left( \frac{I_t}{I_{t-1}} \right) \right] I_t = \left[ 1 - \frac{\phi_I}{2} \left( \frac{I_t}{I_{t-1}} - \chi X \right)^2 \right] I_t
\]
Wage determination

• The labor aggregator solves

$$\min_{W_{jt}} E_0 \sum_{t=0}^{\infty} \beta^t \left[ \xi^W (W_{jt} - W_{jt}^*)^2 + (\Delta W_{jt} - \Delta W_{t-1})^2 \right]$$  \hspace{1cm} (5)

where $W_t^*$ is the flexible–price optimal nominal wage

• The FOC and symmetric equilibrium yield

$$\Delta W_t - \Delta W_{t-1} = \beta E_t (\Delta W_{t+1} - \Delta W_t) + \xi^W (W_t^* - W_t)$$  \hspace{1cm} (6)
2 Firms

2.1. Exporters

\[ \mathcal{L}^X = (1 + i_t^L)W_t L_t^X + P_t^T M_t^X + R_t^K K_t^X \\
+ \phi_t^X \left[ X_t - (A_t^X L_t^X)^{\gamma_1^X} (M_t^X)^{\gamma_2^X} (K_t^X)^{1-\gamma_1^X-\gamma_2^X} \right] \]  \hspace{1cm} (7)

Exporters have to borrow from banks to pay for labor
Senior staff: To finance capital?

2.2. Importers

2.3. Nontradable firms
3 Banks

- The representative bank lends exporters to finance wage bills
  \[ B_t^L = W_t L_t^X \] (8)

- Assume loans are proportional to deposits \((B_t^L = \zeta_t^L B_t)\), with factor of proportionality depending on export growth relative to its steady state growth
  \[ \zeta_t^L = \left( \frac{X_t}{\bar{X} X_{t-1}} \right)^\tau \] (9)
4  Government

- The monetary authority solves

\[ \min_{i_t} E_0 \sum_{t=0}^{\infty} \beta^t \left[ \xi^i(i_t - i_t^*)^2 + (i_t - i_{t-1})^2 \right] \]  

(10)

where

\[ i_t^* = \bar{i} + \kappa(\pi_t - \bar{\pi}) \]  

(11)

such that \( \bar{i} \) is the steady state level of nominal interest rate.

- The FOC is given by

\[ i_t - i_{t-1} = \beta E_t(i_{t+1} - i_t) + \xi^i(i_t^* - i_t) \]  

(12)
II. Preliminary simulation results: interest rate shock

![Graphs showing simulation results for different variables.](image-url)
II. Preliminary simulation results: productivity shock in export sector

\[ 100\log(\text{Ax}) \quad 100\log((W/\text{Ax})^{\text{gammax}1}(\text{Pm}^{\text{gammax}2}((\text{Px}\times\text{X}/\text{Kx})^{(1-\text{gammax}1-\text{gammax}2)})) \quad 100\log(\text{Px}) \]

\[ 100\text{dot}_P \]

\[ 100\log(\text{X}) \quad 100\log(\text{Mx}) \]

\[ 100\log(\text{Lx}) \quad 100\log(\text{Kx}) \]
Future Works

<table>
<thead>
<tr>
<th></th>
<th>Present model</th>
<th>Future model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>Used by exporters</td>
<td>Used by exporters and nontradable firms</td>
</tr>
<tr>
<td>Financial intermediation</td>
<td>Loaned to finance labor costs</td>
<td>Loaned to finance capital costs</td>
</tr>
<tr>
<td>Parameter specification</td>
<td>Calibration</td>
<td>Estimation</td>
</tr>
</tbody>
</table>