

# FJÁRMÁLATÍÐINDI

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GEFIÐ ÚT AF SEÐLABANKA ÍSLANDS

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## English summaries

### Hagstjórn, fjármál og hagvöxtur

*Monetary and fiscal management, finance and growth*

Thorvaldur Gylfason

This lecture addresses three related aspects of monetary and fiscal management in Europe and elsewhere. First, I discuss the implications of economic integration for monetary and fiscal policy, especially the narrow focus on inflation as the main objective of monetary policy. I argue that because inflation springs from many sources, monetary authorities held responsible for maintaining low inflation need to exercise their new-found independence by reserving the right to address all sources of inflation. I also ponder the question whether increased independence of fiscal policy from short-term political concerns would be desirable. Second, I present some empirical evidence of the relationship between inflation, finance and economic growth across countries, arguing that economic growth considerations provide an additional justification for why low inflation belongs on the agenda of independent policy-makers. Third, I review some aspects of the relationship between fiscal policy and economic growth, emphasising the three-pronged role of fiscal management: stabilisation, allocation and distribution, all of which can be conducive to growth.

*Keywords:* Economic policy, public finance, economic growth.

*JEL:* E50, E60, O11.

### Ástæður fyrir kaupum og sölu viðskiptavina á íslenskum krónum

*Explaining the customer order flow in the market for Icelandic krónur*

Kári Sigurdsson

This paper is about explaining the customer order flow in the market for Icelandic krónur by using two different approaches. The first approach belongs to traditional time series models. The second one is applicable due to special circumstances in Iceland and uses foreign trade to explain the order flow. The paper is based on a unique dataset about daily customer order flow from two major Icelandic banks.

The answer put forth in this study is that time series models have reasonable explanatory power for speculative customer order flow ( $R^2=0.30$ ) but almost no explanatory power for non-speculative order flow. Furthermore, there appears to be a wage relationship between monthly foreign trade and order flow.

*Keywords:* International finance, market microstructure, order flow

*JEL:* F31, G14

## Nóbelsverðlaunin í hagfræði árið 2004: Ósamkvæmni, hagstjórn og drifkraftar hagsveiflna

*The Time Consistency of Economic Policy and the  
Driving Forces Behind Business Cycles*

An article from the Nobel Foundation's website ([www.nobel.se](http://www.nobel.se))

Finn Kydland and Edward Prescott have been awarded the 2004 Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel for their fundamental contributions to two closely related areas of macroeconomic research. The first concerns the design of macroeconomic policy. Kydland and Prescott uncovered inherent imperfections – credibility problems – in the ability of governments to implement desirable economic policies. The second area concerns business cycle fluctuations. Kydland and Prescott demonstrated how variations in technological development – the main source of long-run economic growth – can lead to short-run fluctuations. In so doing, they offered a new and operational paradigm for macroeconomic analysis based on microeconomic foundations. Kydland and Prescott's work has transformed academic research in economics, as well as the practice of macroeconomic analysis and policy-making.

*Keywords:* Time inconsistency, credibility, economic policy, technological development, supply shocks, business cycle fluctuations.

*JEL:* E32, E61.