
REM Newsletter 11/2020

February 24, 2020



Editors: António Afonso, Isabel Proença, Joana Pais

<https://rem.rc.iseg.ulisboa.pt/>

Contacts: Phone: +351 213 925 912. e-mail: rem@iseg.ulisboa.pt

The Latest REM [Working Papers](#)

The center of **Research in Economics and Mathematics (REM)** circulates research, notably by its affiliated members, as working papers intended for professional and public discussion and comment. The papers have not been peer reviewed.

Table of contents

1. [The relationship between budget deficit and external deficit: the case of Portugal](#), José Carlos Coelho, *Working Paper 0116-2020*
2. [Accuracy of European Stock Target Prices](#), Joana Almeida, Raquel M. Gaspar, *Working Paper 0115-2020*
3. [Spatial trends of manufacturing a Von Thünen Mills approach](#), José Pedro Pontes, Armando J. Garcia Pires, *Working Paper 0114-2020*
4. [Growth Accounting and Regressions: New approach and results](#), Tiago Sequeira, Hugo Morão, *Working Paper 0113-2020*

Events

[REM Young Researcher Award Ceremony](#), 4 March 2020, 18:00h, ISEG Noble Hall

REM launched in 2019 the **REM Young Researcher Award**. The prize awards the best Master thesis defended at ISEG, in the period October 2018 – December 2019, supervised by a member of REM in one of ISEG's Master courses. A jury including a member of REM and two researchers from other Universities made the selection. **2019 Prize recipients:**

Domingos Guerreiro Seward: "MESURING LABOUR MARKET SLACK IN PORTUGAL: AN OUTCOME-BASED APPROACH", Monetary and Financial Economics.

Francisco Fonseca: "FRACTIONAL DIFFUSION MODELS AND OPTION PRICING IN JUMP MODELS", Mathematical Finance.

Joana Sousa Leite: "THE TRANSMISSION OF UNCONVENTIONAL MONETARY POLICY TO BANK CREDIT SUPPLY: EVIDENCE FROM THE TLTROS", Monetary and Financial Economics.

[8th UECE Conference on Economic and Financial Adjustments](#), ISEG/UL – School of Economics and Management / University of Lisbon, Lisbon, 10th July 2020.

REM [Working Papers](#)

[The relationship between budget deficit and external deficit: the case of Portugal](#), José Carlos Coelho, *Working Paper 0116-2020*

This paper makes an empirical analysis applied to Portugal between 1999 and 2016 which investigates the existence of a causal relationship between the budget balance (overall and primary) and the external balance (goods and services and current). Using Granger Causality Test (1969) and the Toda-Yamamoto Methodology (1995), we conclude that there is causality between the overall budget balance and the current external balance and between the primary budget balance and the current external balance, which provides support to the Twin Deficits Hypothesis. We also found some evidence to verify the Current Account Targeting Hypothesis, which points to the possibility of bi-directional causality between the budget deficit and the external deficit in Portugal.

[Accuracy of European Stock Target Prices](#), Joana Almeida, Raquel M. Gaspar, *Working Paper 0115-2020*

Equity researches are conducted by professionals, who also provide buy/hold/sell recommendations to investors. Nowadays, target prices determined by financial analysts are publicly available to investors, who may decide to use them for investment purposes. Studying the accuracy of such analysts' forecasts is, thus, of paramount importance. Based upon empirical data on 50 of the biggest (larger capitalisation) European stocks over a 15-year period, from 2004 to 2019 and using a panel data approach, this is the first study looking at overall accuracy in European stock markets. We find that Bloomberg's 12-month consensus target prices have no predictive over future market prices. Panel results are robust to company fixed effects and sub-period analysis. These results are in line with the (mostly US-based) evidence in the literature. Extending common practice, we perform a comparative accuracy analysis, comparing the accuracy of target prices with that of simple capitalisations of current prices. It turns out target prices are not better in forecasting than simple capitalisations. More interestingly, by analysing also the relationship between both measures – target prices and capitalised prices – we find evidence that capitalised prices partially explain how target prices are determined. Even when considering individual regressions, accuracy is still very low, but varies considerably across stocks.

[Spatial trends of manufacturing a Von Thünen Mills approach](#), José Pedro Pontes, Armando J. Garcia Pires, *Working Paper 0114-2020*

We use a location model due to VON THUNEN (1826) and MILLS (1970; 1972, chapter 5) to determine the patterns of the spatial distribution of manufacturing. In a homogeneous space organized around an activity center (a "Town"), a set of competitive firms produce two complementary commodities: product 1 is a consumer good and product 2, an intermediate good. Firms in both vertically related stages use land and downstream producers of commodity 1 use also product 2 as an input. The productive activity takes place under fixed proportions and the economy is competitive. We further introduce increasing returns, which are external to the firm and derive from a fixed input (a "machine") that is shared by all manufacturers. We presuppose that such a "machine" is supplied by the set of landowners if the fixed cost is covered by the increase in total land rent (or capitalized value of land) related with its installation. This model can be interpreted in two different ways. Either the intermediate good is viewed as a raw material that is produced by farmers and successively "refined" by a manufacturer, who uses a "mill" or "distillery" for that purpose, or it can stand for "labor" supplied by households with residential land. The economic results are the same in both cases. The model shows that the decentralization of manufacturing and its spatial integration with primary production or workers' residences takes place more likely in industries that are labor-intensive (or show high "refining rates" of raw materials) and relatively small fixed costs requirements. The factories that relocate away from the activity center will likely stay in areas at an intermediate distance rather than in remote territories since they would then face too high transport costs in exporting back their output.

[Growth Accounting and Regressions: New approach and results](#), Tiago Sequeira, Hugo Morão, *Working Paper 0113-2020*

We seek for determinants of the sources of growth. Using a growth accounting method that accounts for time variations in factor shares, we run growth regressions for a panel of 101 countries between 1950 and 2015. Our methodology takes into account the specific features of the data (namely outliers, heterogeneity, and cross panel correlations) and overcomes most criticisms previously raised on growth regressions. The most important evidence reveals that government current expenditure decreases the factor shares and has no effect on total factor productivity (TFP). Trade affects the TFP and the Biased Technical Change (BTC) components, decreasing the factor shares. Moreover, human capital decreases TFP and increases the BTC contribution to growth. This unveils the channels through which determinants of growth act in influencing economic growth.