How to build an Economic Model in your spare time


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Presented by Sergio Feijoo
UC3M Macro Reading Group

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‘Good’ ideas: Do they exist? How? Where? ...

- Getting a good idea:
  - How? Just get lot of ideas and disregard bad ones.
  - Where? Not journals: loose ends are loose by some reason. Better look for them in newspapers, magazines, TV, conversations...

Assumption

We have an idea.

- Is our idea worth pursuing?
  1. Can be phrased in a way that is understood by any non-economist?
  2. Is it interesting? If not, don’t worry if it is also wrong. Think of the opportunity cost.
  3. Aim for: “Ah! So that explains it!”
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We have a ‘good’ idea. Now what?

1. Don’t look at the literature too soon. Some reasons:
   - Practice developing a model.
   - No bias i.e. more likely to be original.
   - Ideas need time to incubate.

2. Building the model:
   1. Answer: Who is in the economy? Which constraints? How do agents interact? What mechanism adjusts their decisions?
   2. Work an example, the easiest possible.
   3. Work another example, and then another... Find what is common in them.
   4. Finally write down a model. Critical advice: KISS (Keep it simple, stupid). Simplest possible model that exhibits some interesting behaviour.
   5. Keep at it until it gets simple.
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3 Generalize the model:
   - We know what are the key pieces that make the model work.
   - Education is useful: use tools/techniques from the Master.

4 Making mistakes:
   - Back and forth process. Like sculpture, most of the work consists on subtracting things, not adding them.

5 Search the literature:
   - Tell professors / advisors about your approach.
   - If lucky, your model will be better, if not, you’ll learn from your mistakes for next time.
   - If you’re very lucky and your model is not in the literature, maybe you’re wrong. Here is where the advisor is really important.
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6. Don’t lose perspective. Get independent judgement model:
   - Colleagues, students, but also friends, family... Try to get to the fundamental idea of the model.

7. Giving seminars:
   - The more you talk, the better the paper will be. Immediate feedback can be really useful.
   - Advice: skip long introductions, show what you’ve got and why it is important. Finally, spend a couple of minutes summarizing what you accomplished and why people should care.
   - Key for seminars is establishing credibility from the beginning.
   - When finished, use the questions to improve your model.

8. When to stop?
   - Stop when you’ve made your point.
   - You can know following the reactions in the seminars.
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According to Varian, all speeches should have a summary, so...

- Look for ideas in the world, not in the journals.
- First make your model as simple as possible, then generalize it.
- Look at the literature later, not sooner.
- Model your paper after your seminar.
- Stop when you’ve made your point.