

# Policy Stability and Macroeconomic Policies

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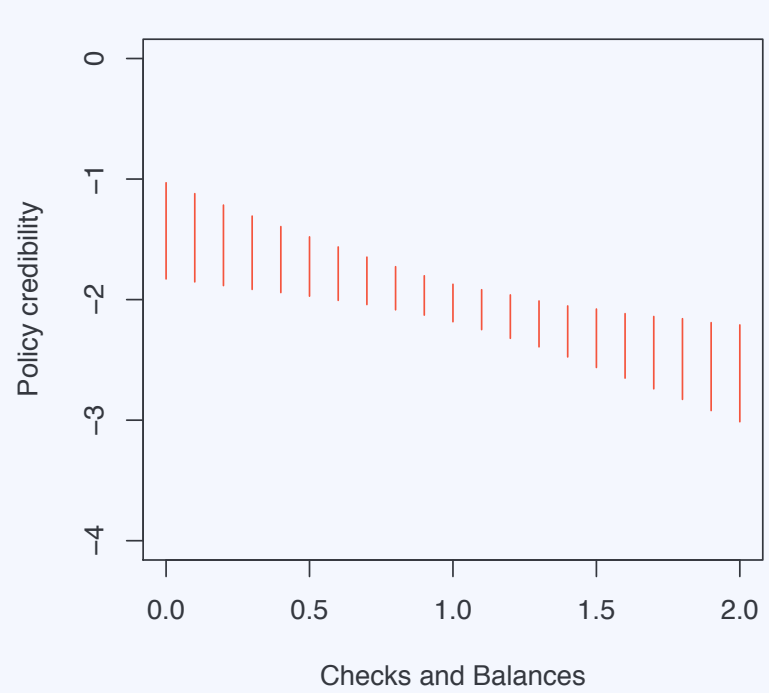
## Introduction

In comparative politics and in international relations, researchers often work with incomplete data. What should a researcher do when their dataset is plagued with missing values? Does missing data bias the coefficient estimates? First, I replicate a popular comparative politics study and I illustrate the impact of missing data on the authors' coefficient estimates.

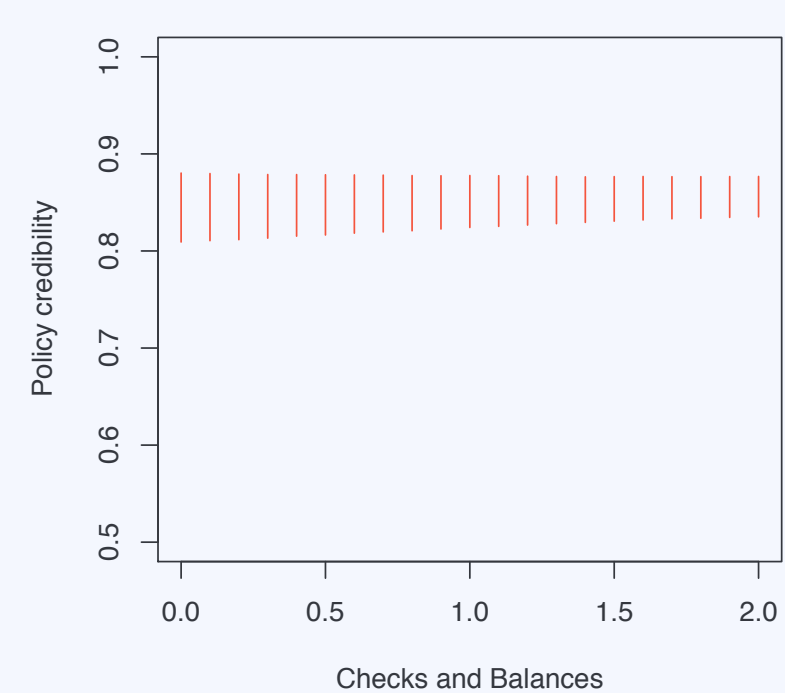
Second, scholars often use inflation as a proxy measure for policy stability. Most researchers, however, do not differentiate between low inflation and high inflation countries. I present results from a hurdle model. The hurdle model shows that inflation is strongly associated with policy stability. However, the relationship is stronger in low inflation than in hyperinflation countries.

## Replication and Missing Data

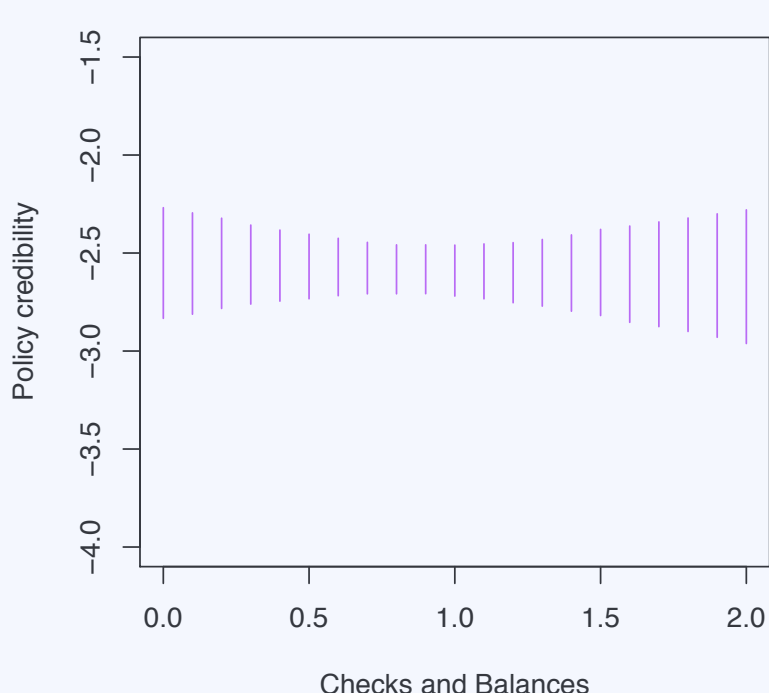
Credibility and Veto Players – Listwise Deletion



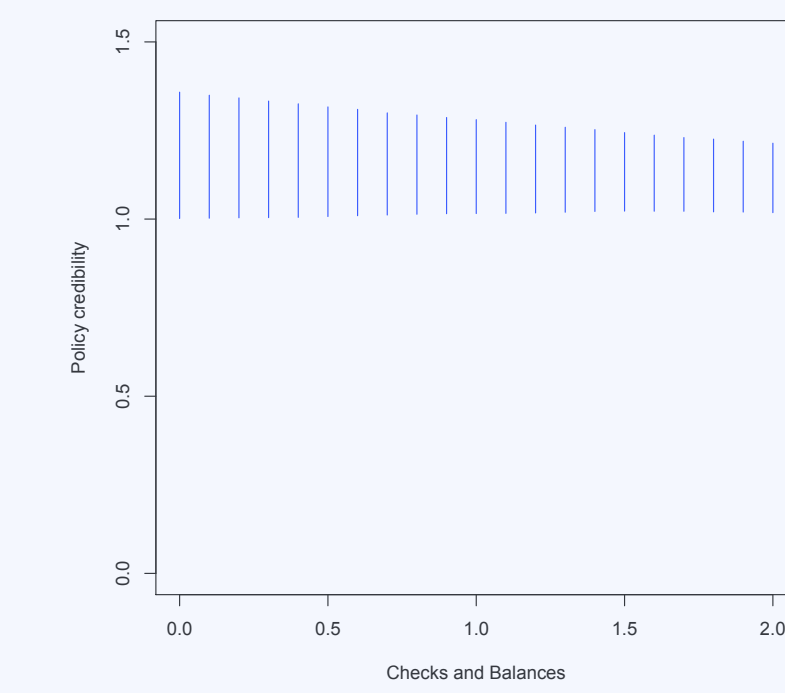
Credibility and Veto Players – Listwise Deletion



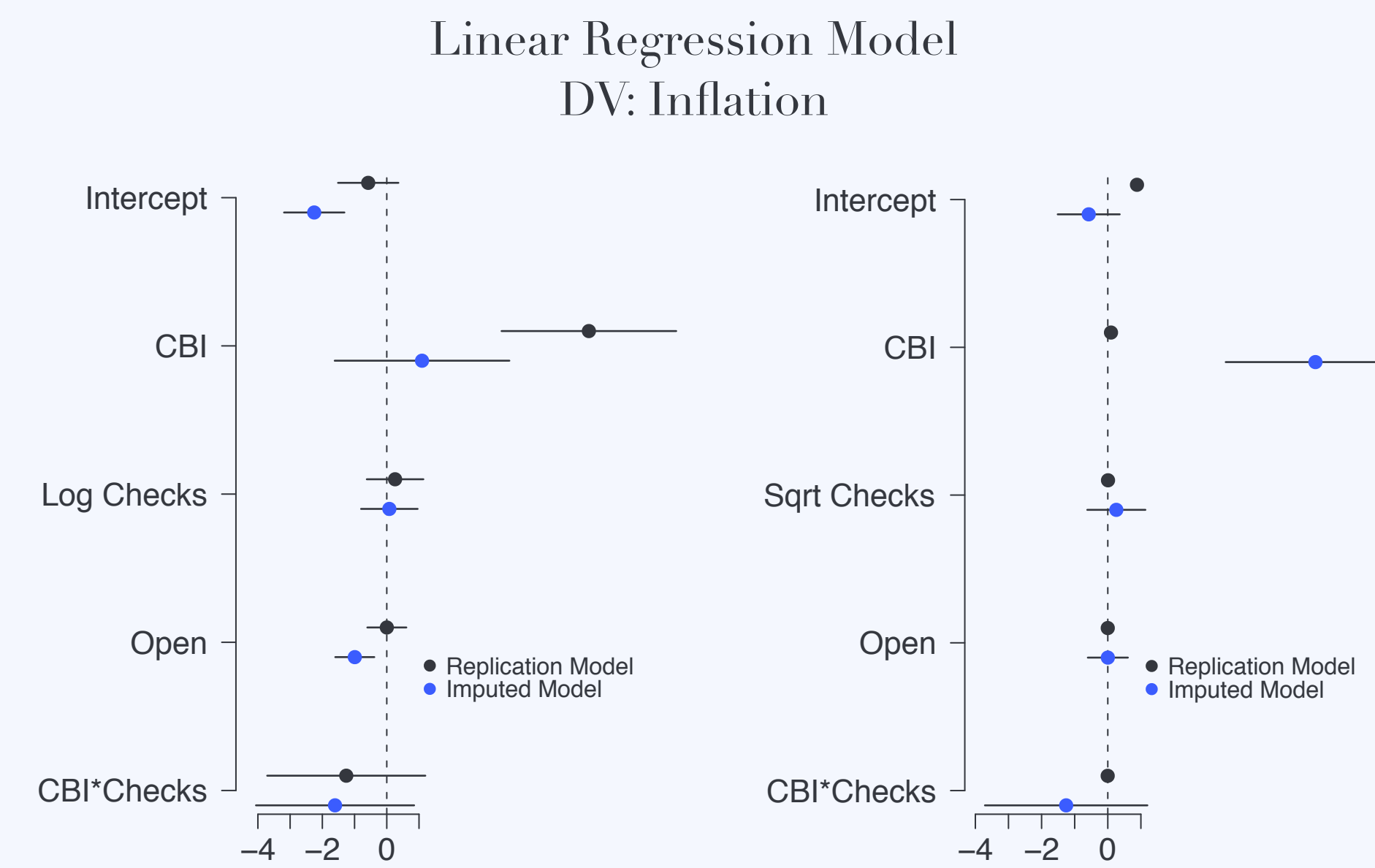
Credibility and Veto Players – Imputation



Credibility and Veto Players – Imputation



## Replication Coefficients



Usually, researchers conduct analyses using listwise deletion. Listwise deletion assumes that any data missing is missing completely at random (MCAR). In other words, listwise deletion is not agnostic. MCAR may or may not be a good assumption, particularly when a researcher is using a sample that includes developing countries. However, in most methodology sections, missing data and the process that generates it, is rarely examined.

For instance, in a seminal paper, Keefer and Stasavage (APSR, 2003) find that legal central bank independence (CBI) is conditional on the level of accountability in the country (Checks and Balances). This means that CBI may only help reduce inflation if there are appropriate mechanisms which keep the central bank independent. Yet, thirty percent of their dataset is missing. In addition, Keefer and Stasavage only test their hypotheses using period averages. Unfortunately, using period averages instead of annual data averages away uncertainty.

Running multiple imputation and expanding their dataset to the annual frequency, my analysis points to significant variability in Keefer and Stasavage's coefficient estimates. According to my analyses, the relationships they report are weak at best.

In a second stage, I examine the authors' assertion that a country's inflation rate is a good measure of policy stability and policy credibility.

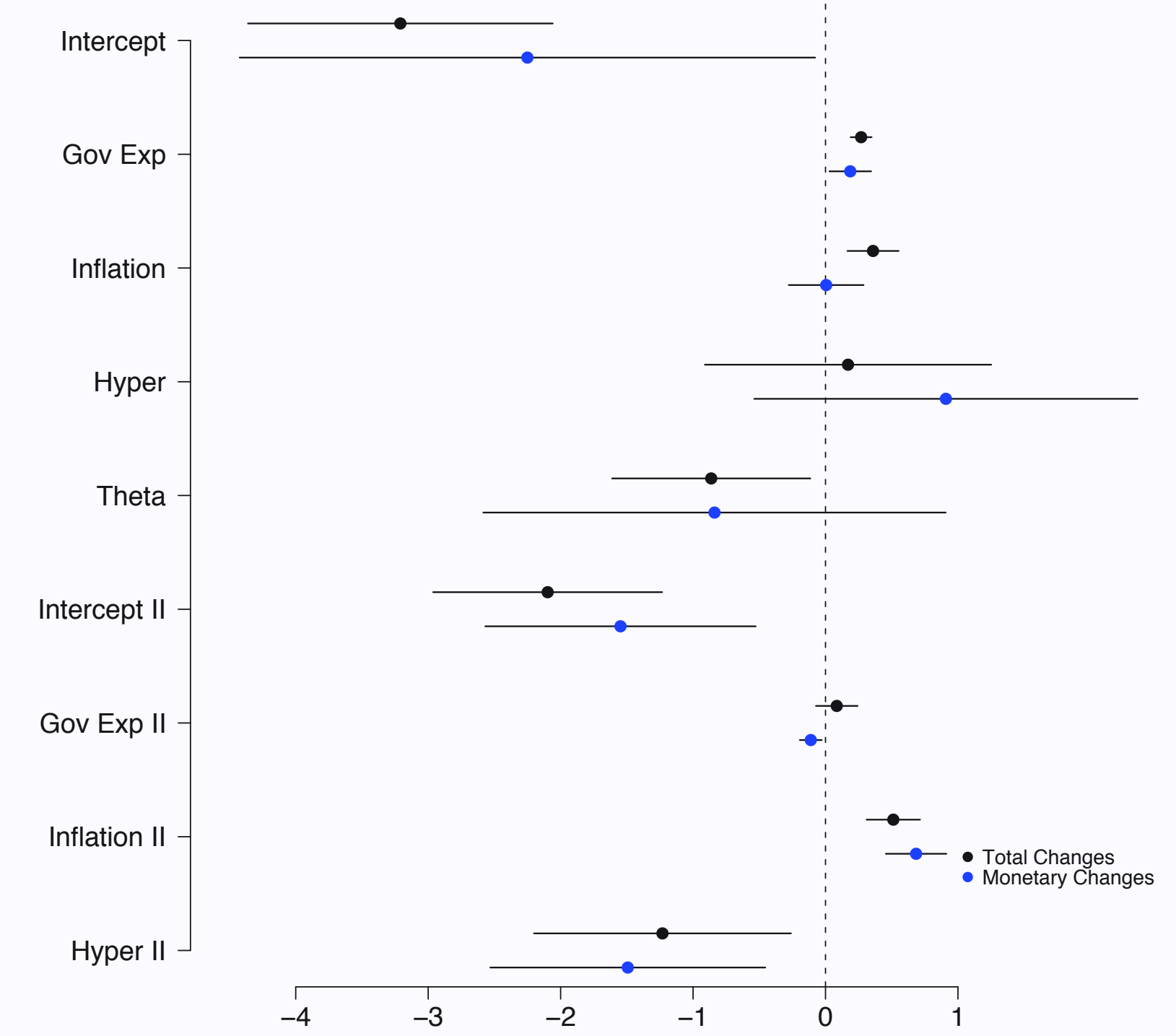
I collect information from the IMF's annual publication, *Exchange Rate Arrangements and Exchange Rate Restrictions*, and construct a quarterly count measure of announced changes to a country's trade and monetary regime. My sample includes a subset of countries in the Americas.

Using a hurdle model, I examine whether a country's inflation rate is a good predictor of macroeconomic policy change.

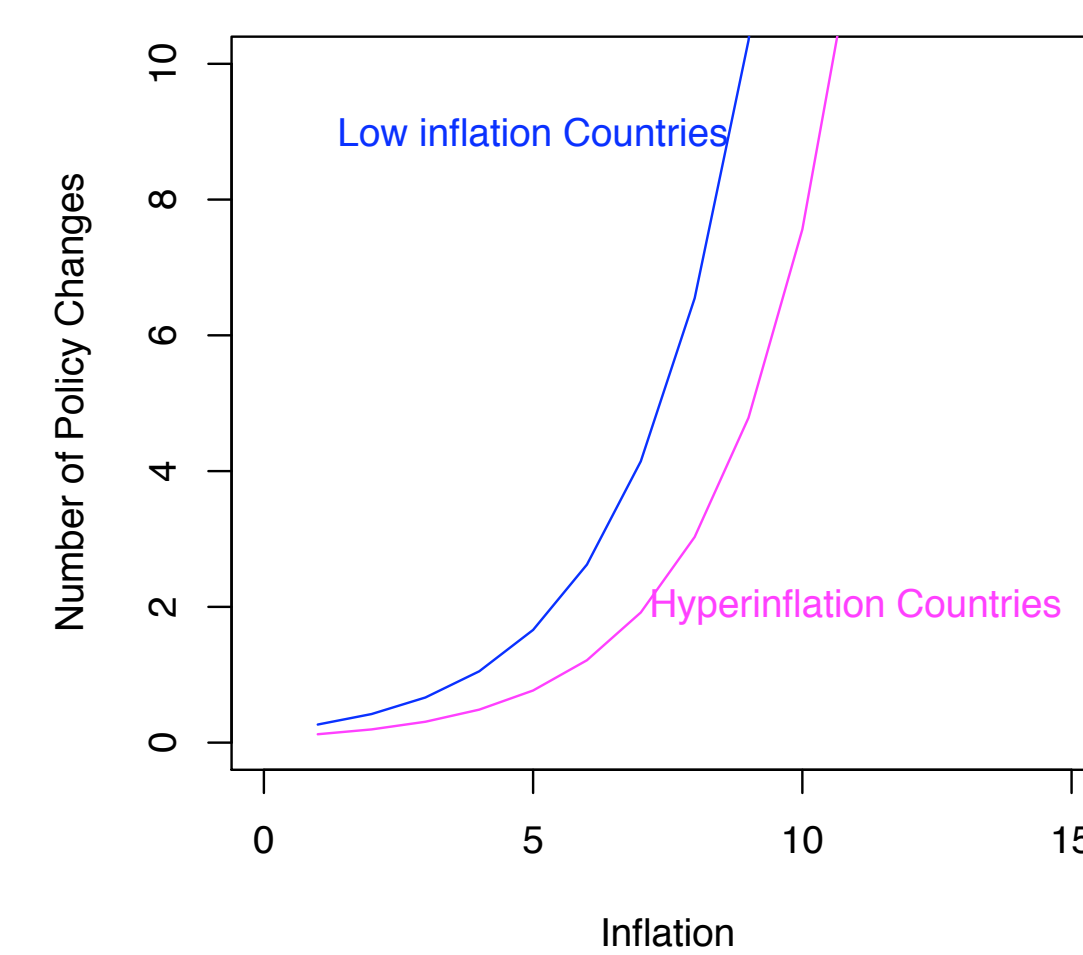
I do find some empirical support suggesting that the higher a country's inflation rate, the more likely a macroeconomic policy change. However, for hyperinflation countries, the effect is substantively weaker.

## Predicting Policy Changes

Hurdle Model  
DV: Number of announced changes



Monetary Policy Stability and Inflation



The strength of the relationship is smaller in hyperinflation countries

## Policy Stability and Inflation

There is a positive relationship between changes to a country's monetary and trade regime and the domestic price level

Macroeconomic Policy Stability and Inflation

