Investigating the Inefficiency of the CBO’s Budgetary Projections

Natsuki Arai

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1. What is the question of paper?

This paper try to evaluate the efficiency of the CBO’s budgetary and economic projections, and investigate the possible sources of inefficiency in their forecasts.

2. Why should we care about it?

the CBO’s projections are important inputs for both fiscal and monetary policies, evaluating the efficiency of the CBO’s projections is an important issue in macroeconomics. For example, CBO’s budgetary projections are essential inputs for the congressional debates and public discussion about the fiscal policy in the U.S.1 At the same time, the CBO’s projections influence monetary policy discussion, through the impact on business cycle the expected path of federal funds rate.2

3. What is the author’s answer?

The results found in this paper suggest that the efficiency in the budgetary projections is due to the inefficiency in the economic projections, and replacing it with more efficient forecast could improve the forecast accuracy.

4. How did the author get there?

Using the method of the conditional forecast evaluation, author propose the method to adjust the difference in the underlying economic forecasts between CBO and SPF, and show that this adjustment can significantly improve the accuracy of the projections in some cases.