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In This Issue

This issue emphasizes the ties between agricultural economists and other economists Both research articles apply modeling techniques from the general literature to processes of particular concern to agricultural economists—food purchases and corn production

Blanciforti and Green apply the almost ideal demand system (AIDS) from the general literature to four categories of food purchases This new demand system has several advantages over the well-known linear expenditure system (LES), which they employ for comparison The AIDS is indirectly nonadditive, allowing consumption of one good to affect the marginal utility of another, whereas the LES is directly additive, implying independent marginal utilities Furthermore, the AIDS possesses the property that income elasticities become more inelastic for necessities (for example, food items) as their budget shares decrease The reverse is true for the LES Both the AIDS and LES classify meats as relative luxuries (food expenditure elasticities greater than 1) and cereals and bakery goods as relative necessities However, the classification of fruits and vegetables switches from a relative necessity under LES to a relative luxury under AIDS, whereas the classification for miscellaneous foods switches in the opposite direction

In the second article, Larson illustrates the potential pitfalls of relying on R^2's and t-values when a forecasting model is developed He presents a structural model, similar to some models in use, of the corn market with very "good" values of the commonly employed statistics He then demonstrates the model's poor forecasting performance and goes on to transform the model so that the values of the standard statistics are "poorer," but the forecasting performance is better Other potential forecasting models—ARIMA, vector autoregression, and open autoregression—are estimated for comparison, but they do not forecast as well as the transformed structural model

The Research Review section summarizes an important topic in macroeconomics and monetary theory With interest expenses rising from 8 percent of farm production expenses in 1975 to 16 percent in 1982, monetary theory and policy have captured more of the agricultural economist's attention The effects of the economic slowdown of the past few years have further emphasized the importance of the macroeconomy to agriculture

A large part of professional economic discourse in monetary theory and macroeconomics currently focuses on the merits and demerits of the rational expectations literature and its corollary that discretionary monetary policy cannot permanently alter the real variables in the economy—the level of economic activity, the level of unemployment, and inflation-adjusted interest rates Conway and Barth summarize the important literature in this debate, including articles that change the basic model to imply policy effectiveness, generally produced by long adjustment lags They conclude that the lasting contributions of this literature may be to encourage closer attention to modeling expectations and to stimulate the responses of economic agents to policy actions

The rational expectations hypothesis would imply small fluctuations in expected real interest rates However, high real interest rates have persisted for some time Sundell summarizes the literature on the determination of real interest rates, a literature which partially depends on the rational expectations literature He concludes that real interest rates have been quite variable because of slow adjustments of wages, prices, and output to changes in the nominal money supply

Lorna Aldrich

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