LEMBAR
HASIL PENILAIAN SEJAWAT SEBIDANG ATAU *PEER REVIEW*
KARYA ILMIAH : JURNAL ILMIAH

Judul karya ilmiah (artikel)	:	The Credibility of Monetary Policy and Procyclical Fiscal Policy
Jumlah Penulis	:	2 orang
Status Pengusul	:	Penulis ke-2
Nama Penulis	:	**Akhmad Syakir Kurnia, SE., M.Si., Ph.D**

Identitas Jurnal Ilmiah	:	a.	Nama Jurnal	:	Applied Economics and Finance
	:	b.	Nomor ISSN	:	ISSN 2332-7294, E-ISSN 2332-7308
	:	c.	Volume, nomor, bulan, tahun	:	Volume. 9, No. 1; 2022
	:	d.	Penerbit	:	RedFame
	:	e.	DOI artikel (jika ada)	:	https://doi.org/10.11114/aef.v9i1.5482
	:	f.	Alamat web jurnal	:	https://redfame.com/journal/index.php/aef/issue/view/302 https://redfame.com/journal/index.php/aef/article/view/5482/5685
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h. Kelengkapan unsur dan kualitas penerbit (30%)		6				4
Total = (100%)		**20**				18
Kontribusi Pengusul (Penulis Pertama / Anggota Utama)		**40%**				7,2

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Kelengkapan dan kesesuaian unsur	Cukup
Ruang lingkup dan kedalaman pembahasan	Riset ini tergolong dalam isu-isu baru dalam ekonomi moneter, walau dalam perkembangan teori sudah banyak diangkat sebagai isu baaru teruitama, sejak isu krisis keuangan tahun 2008.Analisis cukup dalam, dan spesifik
Kecukupan dan Kemutakhiran Data & Metodologi	Sebagai isu baru dalam ekonomi moneter dan keuangan, baik metode maupun landasan teorinya termasuk mutakhir. Demikian pula data yang digunakan.
Kelengkapan unsur dan kualitas penerbit	Lengkap, dan Baik
Indikasi plagiasi	rendah
Kesesuaian bidang ilmu	Dalam subyek ekonomi moneter dan keuangan, bidang ini termasuk dalam perkembangan mutakhir

Semarang, 21 April 2022
Reviewer 1

Prof. Dr. FX. Sugiyanto, M.S..
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• Ruang lingkup dan kedalaman pembahasan	Ruang lingkup sudah mengikuti substansi dalam jurnal. Kedalaman pembahasan sudah menjawab permasalahan riset, yaitu untuk menelaah kredibilitas kebijakan moneter dan fiskal yang procyclical pada 25 negara. Artikel ini sudah didukung referensi yang baik dan relevan.
• Kecukupan dan Kemutakhiran Data & Metodologi	Data/informasi yang disajikan sudah cukup baik dan mutakhir. Metodologi sesuai tujuan bahasan dan sudah diuraikan cukup jelas. Data dalam kajian ini adalah data dari 25 negara selama tahun 2003-2017. Alat analisis yang digunakan adalah Generalized Method of Moment, sudah sesuai tujuan riset. Hasil riset sudah memberikan penjelasan yang baik sesuai tujuan.
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Semarang, 21 April 2022

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Abstract

If indiscipline fiscal policy could affect the monetary policyâ€™s objective and effectiveness, is it necessarily mean that the status quo of monetary policy credibility would also be impacted? This paper addresses the issue by constructing a simple theoretical model and conducting empirical investigations using a dataset from 25 selected Inflation Targeting Framework countries throughout 2003-2017. By employing the Generalized Method of Moments, we find that the monetary policy will remain the status quo credible as the central bank would optimally respond to the disturbances originated from procyclical fiscal policy. However, such a response potentially crowds out domestic investment and slows down the economy, and induces financial instability. This implies that bearing the eye only on the status quo credibility of monetary policy is not sufficient, and the consideration over the fiscal policy behavior becomes crucial.Â

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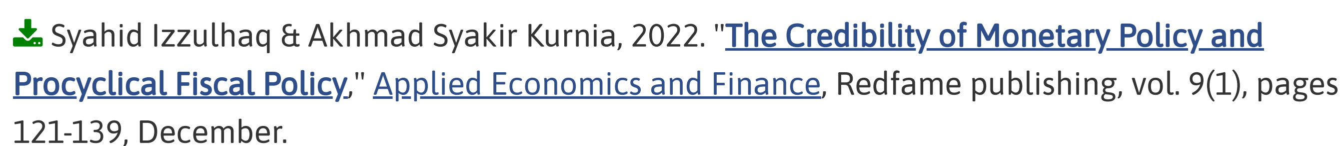

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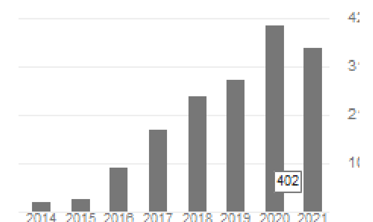

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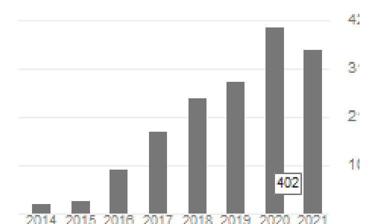

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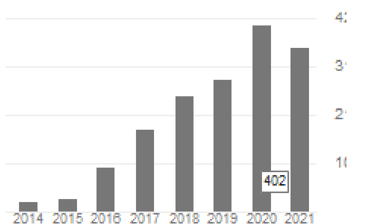

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The Effects of Demand and Interest Rates on Investments, Evidence of Overinvestment from Two Behavioral Experiments

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Received: December 8, 2021 Accepted: January 10, 2022 Available online: Janaury 17, 2022

doi:10.11114/aef.v9i1.5452 URL: https://doi.org/10.11114/aef.v9i1.5452

Abstract

This article analyzes the causes of overinvestment and thus investment cycles with two behavioral experiments. In the experimental simulations increases in demand and cuts in interest rates increased unit profits, which led to uncoordinated and thus collectively too high investments (collective error). This made it possible to demonstrate collective errors that led to overinvestment and investment cycles (boom and bust cycles). Central banks and companies should take this into account when making their decisions. The experiments show the fundamental problem of uncoordinated supply adjustment and a tendency on the part of market participants to neglect the behavior of other actors and to underestimate the influence of the market on their own investment decisions.

Keywords: overinvestments, cobweb theorem, low interest rate policy, monetary business cycles, boom and bust cycles, collective error hypothesis, efficient market hypothesis, Wicksell hypothesis, behavioral modeling

JEL classification: E 43, E 47, E 58

1. Introduction

Companies invest if they can make more profit with more production. Increased prices or cost cuts might be reasons for an augmented profit margin and thus trigger investments. This article analyzes the causes of overinvestment and thus investment cycles with two behavioral experiments (experimental simulation, behavioral modeling). Increases in demand and cuts in interest rates are examined as possible causes for overinvestment, which lead to corresponding increases in profits and thus trigger investments. If economic actors make mistakes in managing capacity, overinvestment can result. The problem is that the market participants do not know by how much their competitors are increasing their capacities and the price only reacts once the capacities are on the market. What if the market players systematically make mistakes because they are not behaving rationally or because they do not have all the information, such as the capacity increases of their competitors? Applying behavioral economics, this essay analyzes the economic behavioral dispositions using models to identify the mistakes actors make in groups (collective error hypothesis). The goal of the paper is therefore to test if increases in demand can lead to overinvestment due to errors made by market participants and if interest rate cuts can lead to overinvestment due to errors made by market participants

In section 2 the existing literature and studies are presented and compared to the experiment presented here. Section 3 explains the experimental design of the study. Finally, the results are presented and conclusions are drawn (section 4 and 5).

2. Related Literature

It usually takes a while before capacities can be increased when companies invest. The production facilities must be financed, purchased, delivered and integrated into production. Price increases that lead to overinvestment due to delays in expanding supply are primarily seen in the market for raw materials (Humphreys, 2012). Mining projects take five to ten years to complete. Conversely, mine production is difficult to throttle so that the capacities can continue to be used for production as long as the prices are above the variable costs (Glöser-Chowhound, Hartwig, Wheat & Faulstich, 2017).

This is in contradiction to the Efficient Market Hypothesis. This hypothesis assumes that all accessible price-relevant information of the past, present and future are known. The efficient market hypothesis in financial market theory was

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Vol. 9, No. 1; February 2022
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Received: September 1, 2021 Accepted: December 14, 2021 Available online: January 17, 2021

doi:10.11114/aef.v9i1.5453 URL: https://doi.org/10.11114/aef.v9i1.5453

Abstract

Credit rating agencies play a crucial role in financial markets, but are often criticized for particular judgements they make. With debt sustainability in Africa coming under pressure during the COVID-19 pandemic, some market commentators renewed concerns about anti-African bias in sovereign credit ratings. Using ratings data from one of the largest agencies, and economic and fiscal data independently sourced from the IMF, this article formally tests for anti-African bias in sovereign ratings. In doing so, it focuses purely on quantitative explanatory factors, given the potential for any bias in ratings to be reflected in implicit bias within qualitative judgements made by rating analysts. However, there is no statistical evidence of bias against African sovereign over the data sample, which runs from 2016. As such, any future improvements in African sovereign ratings are likely to reflect sustained improvements in economic and fiscal strength and other factors influencing creditworthiness, rather than the removal of any prejudice against this group.

Keywords: credit ratings, Africa, sovereigns, bias

1. Introduction

Access to funding is a key requirement for many developing economies, with international funding typically required to foster economic development via infrastructure, training or other means. But the risks associated with these foreign investments – as seen from the perspective of non-resident investors – are often substantial. As such, developing economies can face high funding costs.

One important set of actors in this framework are the credit rating agencies (CRAs). These agencies – especially the 'big three' of S&P, Moody's and Fitch – provide external assessments of credit risk for investors, published as ratings. If CRAs' analysis is correct, lower-rated governments represent higher credit risk for investors and hence should be expected to face higher borrowing costs when issuing bonds.

The large CRAs have faced considereable criticism in recent years, notably for the role they played in the Global Financial Crisis of 2007/8 and associated spillovers to events such as the European sovereign debt crisis. Criticisms are often focused on particular types of ratings, such as structured finance transactions or credit ratings for countries, often called sovereigns by CRAs. Larger rating agencies' sovereign ratings typically cover over 100 countries around the world; but it is striking that many sovereign ratings on the African continent are in the lower part of global ratings scales. The role of CRAs in Africa was also thrown into the spotlight during the recent discussions on the global 'Debt Service Suspension Initiative' (DSSI) led by the World Bank and the International Monetary Fund (IMF). The DSSI arose from concerns about the sustainability of public sector debt burdens in many countries on the continent, and was designed to relieve some of that pressure. However, the DSSI also posed challenges for sovereign debt issuers, CRAs and creditors: in particular, proposals to suspend debt-service payments to private creditors would likely consistute a default under CRA definitions. Given the relatively low ratings that African countries had even prior to the onset of the COVID-19 pandemic, this has contributed to concerns that CRAs may be biased against African sovereigns – who in the absence of any bias would be expected to enjoy higher ratings, lower borrowing costs and hence brighter economic prospects.

In this paper, we test for this bias using the components of a detailed sovereign credit methodology, drawing data independently from non-CRA sources and assessing bias using a quantitative approach. We focus on Moody's rating approach given the greater transparency of its rating approach, and external ease of access to the underlying quantitative data.

Of course, this is not the first research paper to investigate the role and accuracy of credit ratings. Mora (2006)