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## Volume 69 No. 2, June 2006

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ISSN 1174-7943



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## Editor's Note

With banks increasingly operating across geographical borders, a major issue for banking supervisors around the globe is how those banks should be supervised by their 'home' and 'host' country regulators. In the first article of this issue, Professor Ed Kane from Boston College provides a thought-provoking piece on the issues involved in establishing a fair and harmonised system of banking regulation, with particular reference to banks operating across both Australia and New Zealand. The article was prepared by Professor Kane for a public lecture while he was the Professorial Fellow of Monetary and Financial Economics at Victoria University and the Reserve Bank in 2005.

Economic models play an important role in most central banks for both forecasting and policy simulation work. In New Zealand, the Reserve Bank's first model was built in 1971. Over the years, significant developments in macroeconomic theory (not to mention computing technology) have seen a major evolution in the nature of models used at the Bank. In our second article, Grant Spencer and Ozer Karagedikli of the Economics Department briefly review the evolution of models at the Bank from the 1970s to today. The authors note that the Lucas critique – the proposition that model predictions may be undermined unless a model properly captures the way individuals respond to a change in policy – has had a significant bearing on the way researchers build models.

In the third article, Mark Smith of the Economics Department and Governor Alan Bollard consider three major global developments that are having a profound effect on the New Zealand economy. These include the rapid industrialisation of China and other developing economies, the housing boom experienced across many countries; and the increased premium on security arising from the need for increased biosecurity, global warming; and various geopolitical events. The article notes that these events pose significant policy issues as well as challenges for businesses and households that need to adjust to them. This article was the basis for the Governor's speech to the Canterbury Employers' Chamber of Commerce in January of this year.

In April, the Reserve Bank and The Treasury released a joint report on possible additional instruments to supplement the role of interest rates in managing demand pressures and inflation. The report considered a range of possible additional instruments and concluded that there are no simple, or readily implemented, options that would provide large payoffs in the near term, without significant complications and costs, but noted some areas for which further work may be appropriate. A summary of the report is included in this issue and the full document may be accessed at <http://www.rbnz.govt.nz/monpol/about>.

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