



# The Athens Institute

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## Review

Doctoral Dissertation Mr Littlejohn Reid, M.S., B.A. Master of Science in Applied Economics  
Bachelor of Arts in Economics

### Title

The Effect of Expected Demand on Employment in the United States

The author clearly states the subject of his research and the methodology to be used. Both are well-accepted in economics literature. The issues of employment and expected demand have been researched in economics from different ideological and political perspectives, and the author has succeeded in summarizing this literature concisely and effectively, demonstrating a strong command of the topic.

This study focuses on the US economy, which, in many respects, serves as the locomotive driving world economies, primarily the European economies, as the Great Recession has demonstrated. Many economies suffered job and income losses. Another issue is the effect of unpredicted negative external shocks on the economy. Using the US economy as a case study, the author successfully addresses both issues.

My review is organized into two broad sections. In the first section, I have made some general comments that are fundamental to my decision to recommend the acceptance of the Ph.D. dissertation and the granting of a Ph.D. degree. In the second section, I have provided specific comments that the author may find useful to address, particularly in the next stage of producing scientific papers for publication in academic journals.

### General Comments

The literature review is adequate, relevant, and up-to-date. The author demonstrates a good command of both the theoretical and empirical macroeconomic literature. He devotes specific chapters to theoretical developments concerning the relationship between expected aggregate demand and unemployment. He also shows how various

econometric techniques can be applied to estimate the effect of expected demand on US unemployment.

The database used is the most recent available, allowing the analysis to consider the two most significant global macroeconomic shocks of the past two decades: the Great Recession and the COVID-19 pandemic. The analysis of these two phenomena is adequate. The author's research contributes to the relatively scarce literature on the effect of expected demand on the labor market, focusing on employment rather than unemployment levels.

## **Specific Comments**

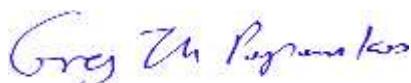
1. The author states very clear what is the subject of his research and the methodology to be used. Both are well accepted in economics literature.
2. p.3 “The correlation coefficient between the nominal values of the two series is  $-0.96$ .” What does the author mean by nominal values. What are the real values of the mentioned variables? On p. 9, “Blaug argues that the rational expectations approach inevitably leads to the anti-Keynesian conclusion that governments can influence nominal variables like the inflation rate but are not able to influence real variables such as output and employment.” Here employment is considered a real variable. And again on p. 28 “nominal variables such as the inflation rate but are not able to influence real variables such as output and employment.”
3. p. 8 Keynes’ heuristic term ‘animal spirit’ I think was used to show how difficult is to have a good theory of investment and not as an explanation of investment. Similarly, are the terms used by Marx, ‘the drive of capitalists to accumulate capital’ and Schumpeter’s term ‘vision’ of the future which can be interpreted as expectations.
4. p. 9 Curtin’s citation has a long historical root. Aristotle in the Nicomachean Ethics mentions the soul of man is divided into the Logical and the a-logical (?Irrational) part, while Plato divides it into Logical (thinking and truth), Thymoid (spiritual desires) and Appetitive (body desires). I just put these on the table as food for thought.
5. p.12 “Single-period forecast errors are irrelevant because the source of these errors (e.g., model deficiencies) will be corrected in a future period. A business will notice that their model contains forecast errors. The business will modify their model and produce more accurate forecasts in the future. This process continues as errors are identified and the accuracy of the model is improved over time.” However, in the meantime the forecast errors have real effects and if I paraphrase Keynesians, “in the long run we found ourselves in another environment of forecast errors”, because new age-wise economic agents enter the market. It is food for thought.
6. p. 28 “Thus, single-period forecast errors are irrelevant because the sources of these errors (e.g., model deficiencies) will be corrected in a future period.” In the meantime, have produced real effects and the Nazis will take over Germany. Can we wait for the deficiencies to be corrected? I play devil’s advocate.
7. One of the frequent mistakes made in macroeconomics is to move from micro to macro without making note of the aggregation problem. For example, p. 35 the author correctly points out that “If a business believes that demand for their company’s goods and services

is increasing, they will increase investment. The increase in investment will in turn cause increases in employment.” In order for this to become an increase in aggregate employment implies strong assumptions of aggregation over all businesses. I am not pointing it out as weakness but rather as a note that we microeconomists often forget to acknowledge.

8. p. 62 “There are two general purposes in performing econometric analysis. (1) to forecast the dependent variable; or (2) to attempt to determine the true value of the estimated coefficients. I am only interested in the value of the estimated coefficients in this dissertation.” Estimating true values implies that you test hypotheses/theories.
9. Chapter 3 is not needed because it adds nothing to the literature. If a new econometric technique was used, then this chapter would have been needed.
10. p. 91 “Table 16 shows that the calculated coefficient was lower in all the high-growth quarters than predicted by Okun and was higher in all the low-growth quarters than predicted by Okun. This implies that firms are risk averse and are more likely to reduce employment in times of negative economic growth than they are to increase employment in high-growth periods.” There might be other explanations for this such as labor hoarding and in general explanations of asymmetric business cycles.

## Conclusions

My overall evaluation of the Ph.D. thesis is positive. It contributes substantial to the macroeconomic empirical literature. The candidate has demonstrated his ability to handle both the theoretical challenges of the various macroeconomic approaches as well as the empirical techniques needed to test his hypotheses. Therefore, I acknowledge that this doctoral dissertation meets the statutory requirements and I recommend it for further proceedings.



Dr Gregory T. Papanikos  
President

