

## SALEM ABO ZAID

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### ACADEMIC POSITIONS

*Post Doctoral Fellow*, Department of Economics, Ben-Gurion University, 2011-present.

### EDUCATION

Ph.D. Economics, University of Maryland, College Park, MD, 2011.

M.A. Economics, Ben-Gurion University, Beer-Sheva, Israel, 2003.

B.A. Economics, Ben-Gurion University, Beer-Sheva, Israel, 2001.

### DISSERTATION

“Essays on the Optimal Long-Run Inflation Rate”

Committee: Prof. Sanjay Chugh (Chair), Prof. John Shea, Prof. Enrique Mendoza.

### FIELDS OF SPECIALIZATION

Primary: Monetary Economics, Macroeconomics.

Secondary: International Economics, Computational Economics, Public Economics.

### PUBLICATIONS

“Inflation Targeting: a Three-Decade Perspective,” *Journal of Policy Modeling*, forthcoming. (with Didem Tuzemen).

“The Trade–Growth Relationship in Israel Revisited: Evidence from Annual Data, 1960-2004,” *Review of Middle East Economics and Finance*, 2011, Vol. 6 (3), pp. 1-31.

“Sticky Wages, Incomplete Pass-Through and Inflation Targeting: What is the Right Index to Target?” *Journal of Economics and Econometrics*, 2010, Vol. 53 (1), pp. 28-58.

### WORKING PAPERS AND WORK IN PROGRESS

“Optimal Monetary Policy and Downward Nominal Wage Rigidity in Frictional Labor Markets,” *Revised and Resubmitted, Journal of Economic Dynamics and Control*.

“On Credit Frictions as Labor-Income Taxation,” *Revise and Resubmit, Economics Letters*.

“Optimal Long-Run Inflation with Occasionally-Binding Financial Constraints,” *Under Review*.

Presentation: 2010 Computing in Economics and Finance, City University London.

Presentation: 2010 Midwest Macroeconomics Meetings, Michigan State University.

“Optimal Capital-Income Taxation in a Model with Credit Frictions,” *Under Review*.

“Optimal Labor-Income Tax Volatility with Credit Frictions,” *Mimeo, Ben-Gurion University*.

“Optimal Monetary Policy with the Cost Channel and Monopolistically-Competitive Private Banks,” *Work in progress*.

“The Cyclical Behavior of Labor Market Variables with Downward Nominal Wage Rigidity,” *Work in Progress*.

“The Optimal Inflation Rate with Asymmetric Cost-Push Shocks,” *Work in progress*.

### TEACHING EXPERIENCE

*Instructor*, Principles of Macroeconomics, Summer 2008, Winter 2009, Summer 2009, Winter 2010, Summer 2010 and Summer 2011, University of Maryland. Computer Methods in Economics, Summer 2011, University of Maryland. Economic Theory-Macro, Fall 2011, Ben-Gurion University.

*Teaching Assistant*, Intermediate Microeconomics, Spring 2007; Intermediate Macroeconomics, Fall 2007 and Spring 2008; Principles of Microeconomics, Fall 2008 and Spring 2009; Intermediate Macroeconomics for Economics Majors, Fall 2009 and Spring 2010, University of Maryland. Introduction to Econometrics, Fall 2001, Spring 2002, Spring 2003; Introduction to Statistics, Fall 2002, Ben-Gurion University.

## RESEARCH/WORK EXPERIENCE

*Economist*, The Research Department, Bank of Israel, Jerusalem, 2005-2006.  
*Economist*, The Adva Center, Tel-Aviv, 2005-2006.  
*Economist*, The Van-Leer Institute, Jerusalem, 2004-2006.  
*Research Assistant*, for Professor *Dov Chernichovsky*, Ben-Gurion University, 2001-2002.

## PROFESSIONAL SERVICE

*Associate Editor*, Journal of Economics and Econometrics, 2010-Present.  
*Referee*, Journal of Economic Dynamics and Control, Macroeconomic Dynamics, Journal of Financial Economic Policy.

## AWARDS

Graduate Assistantship, University of Maryland, 2006-present.  
Jacob K. Goldhaber Award, for Travel to the CEF conference, Summer 2010.  
Graduate Assistantship, Ben-Gurion University, 2001-2003.

## REFERENCES

Prof. Sanjay Chugh	University of Maryland	<a href="mailto:chughs@econ.umd.edu">chughs@econ.umd.edu</a>	(301) 405-3515
	Boston College (Jan. 2012)	<a href="mailto:sanjay.chugh@bc.edu">sanjay.chugh@bc.edu</a>	
Prof. John Shea	University of Maryland	<a href="mailto:shea@econ.umd.edu">shea@econ.umd.edu</a>	(301) 405-3491
Prof. Enrique Mendoza	University of Maryland	<a href="mailto:mendoza@econ.umd.edu">mendoza@econ.umd.edu</a>	(301) 405-3548

## THESIS ABSTRACT

*Part I: “Optimal Long-Run Inflation with Occasionally-Binding Financial Constraints” (Job Market Paper)*

This paper studies the optimal inflation rate in a simple New Keynesian model with occasionally-binding collateral constraints that intermediate-good firms face on hiring labor. For empirically-relevant degrees of price rigidity, the optimal long-run annual inflation rate is around half a percent, whether it is TFP risk or markup risk that is the source of uncertainty in the economy. The shadow value on the collateral constraint is akin to an endogenous cost-push shock. Differently from usual cost-push shocks, however, this shock is asymmetric as it takes non-negative values only. Inflation is positive when the collateral constraint is binding and it is zero when it does not. Since the mean of this asymmetric endogenous cost-push shock is positive, inflation is also positive on average. In addition, a binding collateral constraint resembles a time-varying tax on labor, which the monetary authority can smooth by setting a positive inflation rate. More generally, the basic result is related to standard Ramsey theory in that optimal policy smoothes distortions over time.

*Part II: “Optimal Monetary Policy and Downward Nominal Wage Rigidity in Frictional Labor Markets”*

Empirical evidence suggests that nominal wages in the U.S. are downwardly rigid. This paper studies the optimal long-run inflation rate in a labor search and matching framework under the presence of Downward Nominal Wage Rigidity (DNWR). In this environment, optimal monetary policy targets a positive inflation rate; the annual long-run inflation rate for the U.S. is around 2 percent. Positive inflation “greases the wheels” of the labor market by facilitating real wage adjustments, and hence it eases job creation and prevents excessive increase in unemployment following recessionary shocks. These findings are related to standard Ramsey theory of “wedge smoothing”; by following a positive-inflation policy under sticky prices, the monetary authority manages to reduce the volatility and the size of the intertemporal distortion significantly. The intertemporal wedge is completely smoothed when prices are fully flexible. Since the optimal long-run inflation rate predicted by this study is considerably higher than in otherwise neoclassical labor markets, the nature of the labor market in which DNWR is studied can be relevant for policy recommendations.

*Part III: “Sticky Wages, Incomplete Pass-Through and Inflation Targeting: What is the Right Index to Target?”*

This paper studies strict monetary policy rules in a small open economy with Inflation Targeting, incomplete pass-through and rigid nominal wages. The paper shows that, when nominal wages are fully flexible and pass-through is low to moderate, the monetary authority should target the Consumer Price Index (CPI) rather than the Domestic Price Index (DPI). When pass-through is high, an economy with high degrees of nominal wage rigidity and wage indexation should either target the CPI or fully stabilize nominal wages. These results suggest that, by committing to a common monetary policy in a common-currency area, some countries may not be following the right monetary policy rules.

**PERSONAL INFORMATION**

Nationality: Israeli.

Gender: Male.

Languages: Arabic (Native), Hebrew (Fluent), English (Fluent)