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Bank of England Quarterly Bulletin - Autumn 2002

The Bulletin is published on 23 September, and among the articles in this issue are the following:

Committees versus individuals: an experimental analysis of monetary policy decision-making

This article discusses an experimental analysis of monetary policy decision-making. London School of Economics students were asked to play a simple economics game to investigate the benefits of committee decisions. Although such a stylised experiment can never hope to capture fully the complexity of the decision problem faced by real-world policy-makers, the results provided evidence that the decisions made by committees were superior to those of a single individual. There was also evidence to suggest that committee performance was, on average, better than the performance of the best individual.

The experiment also examined why committee decisions were superior to those of individuals. A significant portion of the improvement could be attributed to the process of majority voting. Perhaps surprisingly, committees which were able to discuss their decisions did not perform better than those where discussion was not allowed. In the experiment, it seems that it was possible to glean the same amount of information by observing the votes of other committee members. Real-world policy-making is undoubtedly a more complex affair. The Monetary Policy Committee takes into account a much wider range of data and information when making its monthly interest rate decision than were used in the experiment.

What this simple experiment has shown is that it is not enough simply to take a majority decision among fixed views that have been reached in isolation. The pooling of knowledge among committee members - in whatever form - is one important reason why group decision-making is superior.

Parliamentary scrutiny of central banks in the United Kingdom and overseas

This article looks at the parliamentary scrutiny of 14 central banks. It shows that, in this small sample, there is considerable diversity in the number of appearances by central bankers before parliament to discuss monetary policy issues. Bank of England and ECB officials make higher-than-average appearances before parliament.

But there is no firm evidence in these data to suggest that particular types of framework are associated with different overall levels of parliamentary scrutiny. Neither is there significant evidence of a correlation between the degree of independence of central banks in the sample, and the number of appearances related to monetary policy. The nature of parliamentary scrutiny of monetary policy may, however, vary according to framework type. Some inflation-targeting frameworks have defined ex ante both the specific circumstances in which scrutiny will be triggered (when the target is missed by more than a particular amount), and the form it would take.

The survey also asks about parliamentary scrutiny of appointments to monetary policy-making committees. Government is almost universally involved in executive appointments in the sample. Generally, however, there is no requirement for a parliamentary check on this appointments procedure.

The balance-sheet information content of UK company profit warnings

This article looks at the information content of profit warnings issued by UK private non-financial companies over the period 1997-2001 in relation to measures of their profitability and balance-sheet strength. It finds that profit warnings are associated with a persistent fall in profit margins and that this decline in margins is larger than for companies which do not issue warnings. The article also finds that those firms that issue profit warnings are more likely to see their gearing levels rise, and investment and dividends fall, than other firms whose profit margins also fall but who do not issue a warning.

This issue also includes the following articles: Ageing and the UK population; Money and credit in an inflation-targeting regime; International Financial Architecture: the Central Bank Governors' Symposium 2002.

Note to Editors

Copies of the Quarterly Bulletin are available from the Publications Group, Bank of England, Threadneedle Street, EC2R 8AH (Tel: 020 7601 4030; fax 020 7601 3298).

Key Resources

Quarterly Bulletin, Autumn 2002 – complete issue

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/qb/2002/qb0203.pdf>