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Unifying the Macro with the Micro By Katie Drake



Tombstones may seem like an odd decorating choice, but Atif Ellahie has them strewn about his office, a constant reminder of reality.

It's less macabre than it sounds.

The "tombstones" are trophies and deal lucites and plaques commemorating mergers, acquisitions and initial public offering transactions from Ellahie's former career as an investment banker in London and New York City. Ellahie, now an Assistant Professor of Accounting at the David Eccles School of Business, keeps them on hand as a reminder of the real-world implications of his research.

"I try to use my institutional knowledge to examine questions that are at the intersection of macroeconomics and accounting," Ellahie said. "My research interests are quite grounded in the real world."

While the general public may think of accounting as simple debits and credits, Ellahie's research looks beyond the numbers to apply accounting principles at a global economy-wide scale.

"Accounting is just a system that measures economic activity," he said. "You can apply similar principles to measuring all kinds of different activities: a country's output such as GDP, or a company's output such as earnings."

In a recently published paper, Ellahie and a co-author used those measurement principles to analyze the effects of U.S. government purchases. The idea for the paper came as governments around the world were injecting their national economies with fiscal stimulus in response to the global financial crisis. Ellahie and his co-author Giovanni Ricco, at the University of Warwick, realized they could combine macroeconomics and accounting to better understand how the disaggregated measurement of government purchases of goods and services affects their potential effects on the U.S. economy.

The conventional wisdom is that government spending does boost the economy, but prior academic research disagrees on the details.

For example, is it better to spend on the federal, state or local level? And should that spending be on infrastructure, defense or healthcare?

The pair came up with a new model to test large swaths of information and see how different types of stimulus performed. They found that while total government purchases do indeed stimulate the economy, it really depends what the government is spending that money on. State and local spending on healthcare and education, and investments by the federal government in infrastructure, have larger multiplier effects to stimulate the economy. But when it comes to federal defense spending, "it is like throwing money into the ocean," Ellahie said.

Having lived and worked in several countries, Ellahie's research also has an international flair. For example, he is interested in "understanding how countries are different, but also how they are similar."

Another recently published paper looked at CEO pay across 31 countries, and whether common inherited beliefs and values influence pay. Ellahie and his co-authors at London Business School, Ahmed Tahoun and Irem Tuna, used the ethnicity of CEOs as a proxy for their common inherited beliefs and values, and found that changes in CEO compensation are significantly larger when CEOs are replaced with a person from a different ethnicity.

It is not new that macroeconomics and accounting are related, Ellahie said, but knowledge in both areas has developed somewhat independently. "There's kind of a disconnect between research in macroeconomics and accounting," he said. "But they really could learn from each other. Bringing these two fields closer is truly what my research is about." 