

Lecture Outline, 9/28 & 9/30

MACROECONOMIC CRISES

O. INTRODUCTION

- A. Two Views of Macroeconomics
- B. This Week's Lectures

I. THE MACROECONOMIC AND FINANCIAL CRISIS OF 2007 AND BEYOND

- A. Background: The Great Moderation
 - 1. Macroeconomic performance from the mid-1980s to roughly 2006
 - 2. Candidate explanations
- B. The Run-Up and Bust in House Prices
 - 1. The explosion of house prices
 - a. Some basic facts
 - b. Some issues that this raises
 - 2. The fall
- C. The Real Economy
 - 1. Macroeconomic performance from 2006 to mid-2008
 - 2. Macroeconomic performance in late 2008 and early 2009
 - 3. Two nitty-gritty data issues
- D. Why Were the Real Effects of the Financial Stress So Large?
 - 1. Candidate explanations
 - 2. A few facts
- E. Financial Regulation and Unconventional Monetary Policy
 - 1. Interventions in financial markets
 - 2. What are the grounds for government intervention?
 - a. Economists' usual view of government intervention
 - b. Analyses of intervention in financial markets
 - c. Some examples of difficult policy issues
- F. The Importance of the Zero Lower Bound on Nominal Interest Rates
 - 1. The zero lower bound
 - 2. Its importance in the episode
 - 3. Possible ways of dealing with the zero lower bound
- G. A Few Thoughts about Fiscal Stimulus
 - 1. The gap between frontier academic models and models used in practice
 - 2. The political economy of fiscal stimulus

(OVER)

- H. Some Other Issues Raised by the Crisis Thus Far
 - 1. The costs of macroeconomic fluctuations
 - 2. The behavior of inflation
 - 3. How much of current high unemployment is structural?
 - 4. The political economy of monetary policy
- I. Some Other Issues Raised by the Crisis Going Forward
 - 1. Background: Standard forecasts
 - 2. What, if anything, can be done to prevent those forecasts from becoming reality?
 - 3. Are large macroeconomic costs of financial crises inevitable?
 - 4. Do large, long downturns leave permanent scars?
 - 5. Possible long-run threats from the monetary and fiscal responses to the crisis, and how to address them.
- J. Kocherlakota's Speech
- K. How Will the Crisis Change Macroeconomics?

II. THE LOOMING FISCAL CRISIS

- A. Introduction
- B. The Auerbach Framework
 - 1. The government budget constraint
 - 2. Auerbach's calculation
 - 3. One immediate implication
- C. Implementing the Framework for the United States Today
 - 1. Characterizing current policy
 - 2. Results
- D. Discussion
 - 1. What's driving the results?
 - a. Demography
 - b. Growth in medical spending
 - c. Policy decisions made over the period 2001-2008
 - 2. Uncertainty
 - a. How uncertain are these estimates?
 - b. How does uncertainty affect optimal policy?
- E. Where Do We Go from Here?
 - 1. What would a social planner do?
 - a. Save more
 - b. Work more
 - c. Not use all the available medical technology?
 - d. Market complications
 - e. The bottom line
 - 2. What would happen if we tried to stay on our current path?
 - a. Lower national saving
 - b. Some type of crisis or meltdown
 - c. Disruptions at the individual level
 - 3. What is likely to happen? A prediction