

Lecture Outline, 10/16 & 10/18

MACROECONOMIC CRISES

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. The Failure of Our Models to Predict or Explain the Crisis

1. The severity of the downturn
2. The sluggishness of the recovery
3. The behavior of inflation

F. 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

G. 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

H. 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)

I. Some Other Issues Raised by the Crisis Thus Far

1. The costs of macroeconomic fluctuations
2. How much of current high unemployment is structural?
3. The political economy of monetary policy

J. 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.

K. Kocherlakota's and Bernanke's Speeches

L. 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

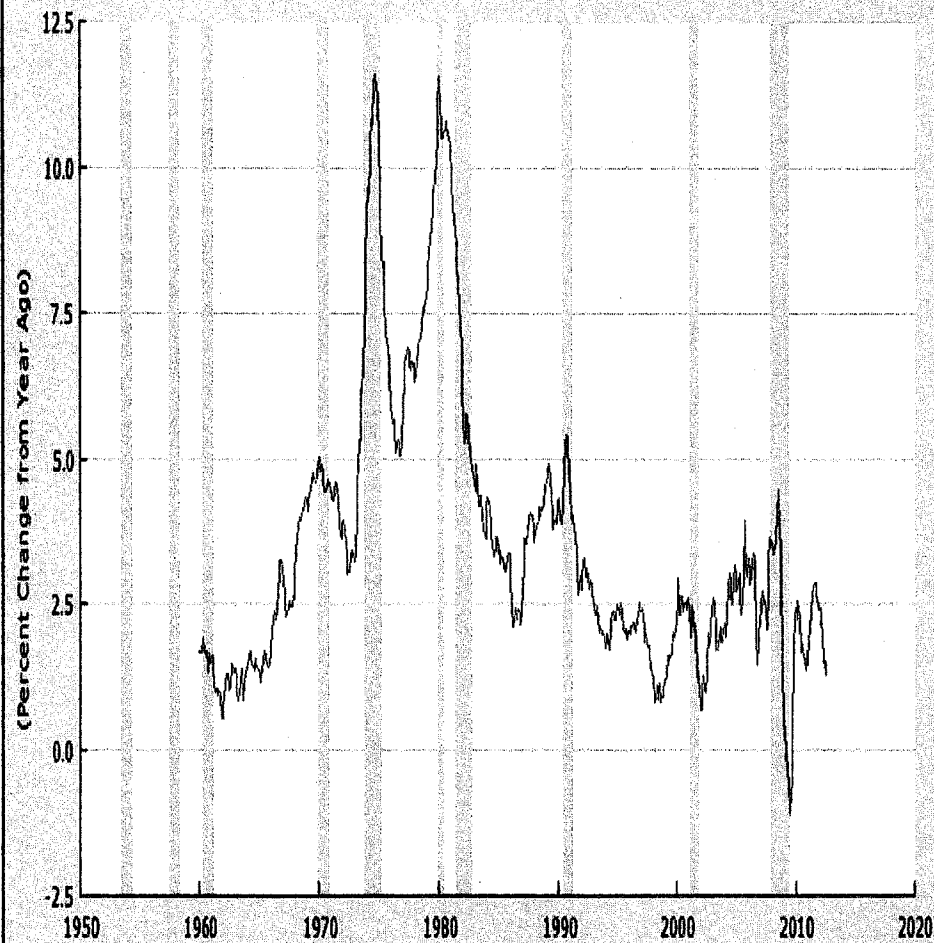
D. Discussion

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
 - f. Interactions with the short-run macroeconomic crisis
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

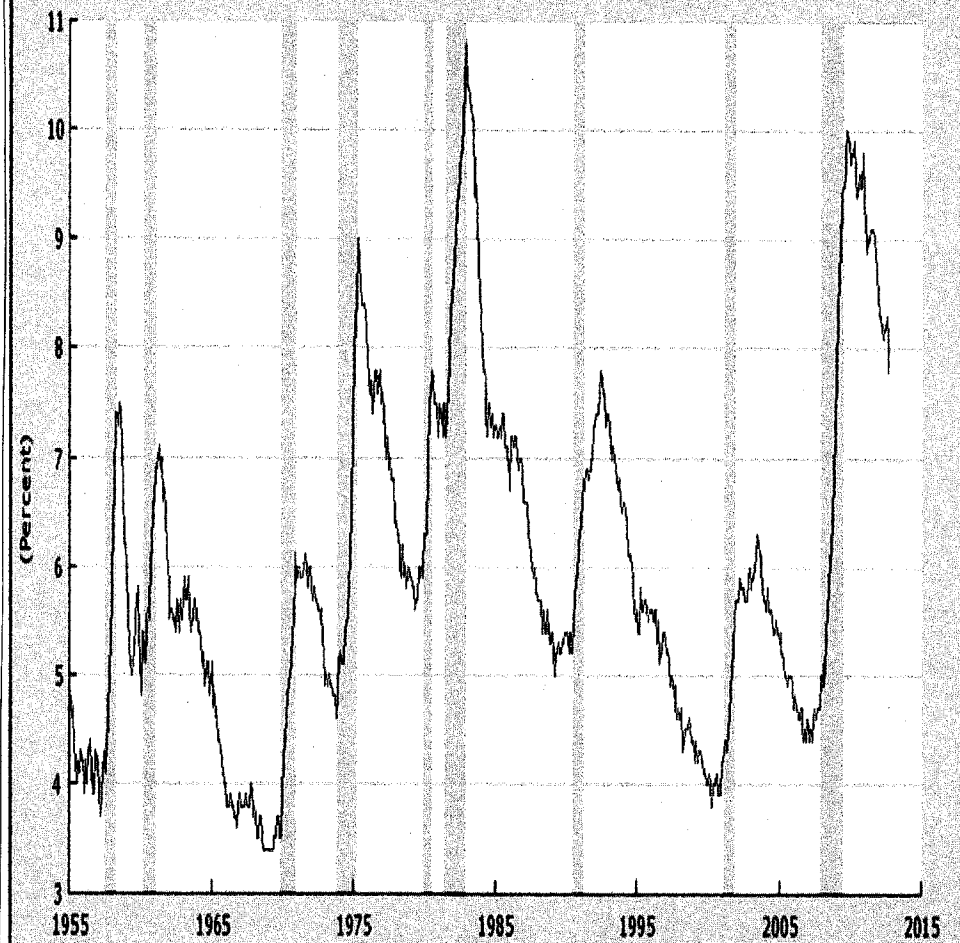
Personal Consumption Expenditures: Chain-type Price Index (PCEPI)
Source: U.S. Department of Commerce: Bureau of Economic Analysis



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Shaded areas indicate US recessions.
2012 research.stlouisfed.org

Civilian Unemployment Rate (UNRATE)
Source: U.S. Department of Labor: Bureau of Labor Statistics



FRED

Shaded areas indicate US recessions.
2012 research.stlouisfed.org

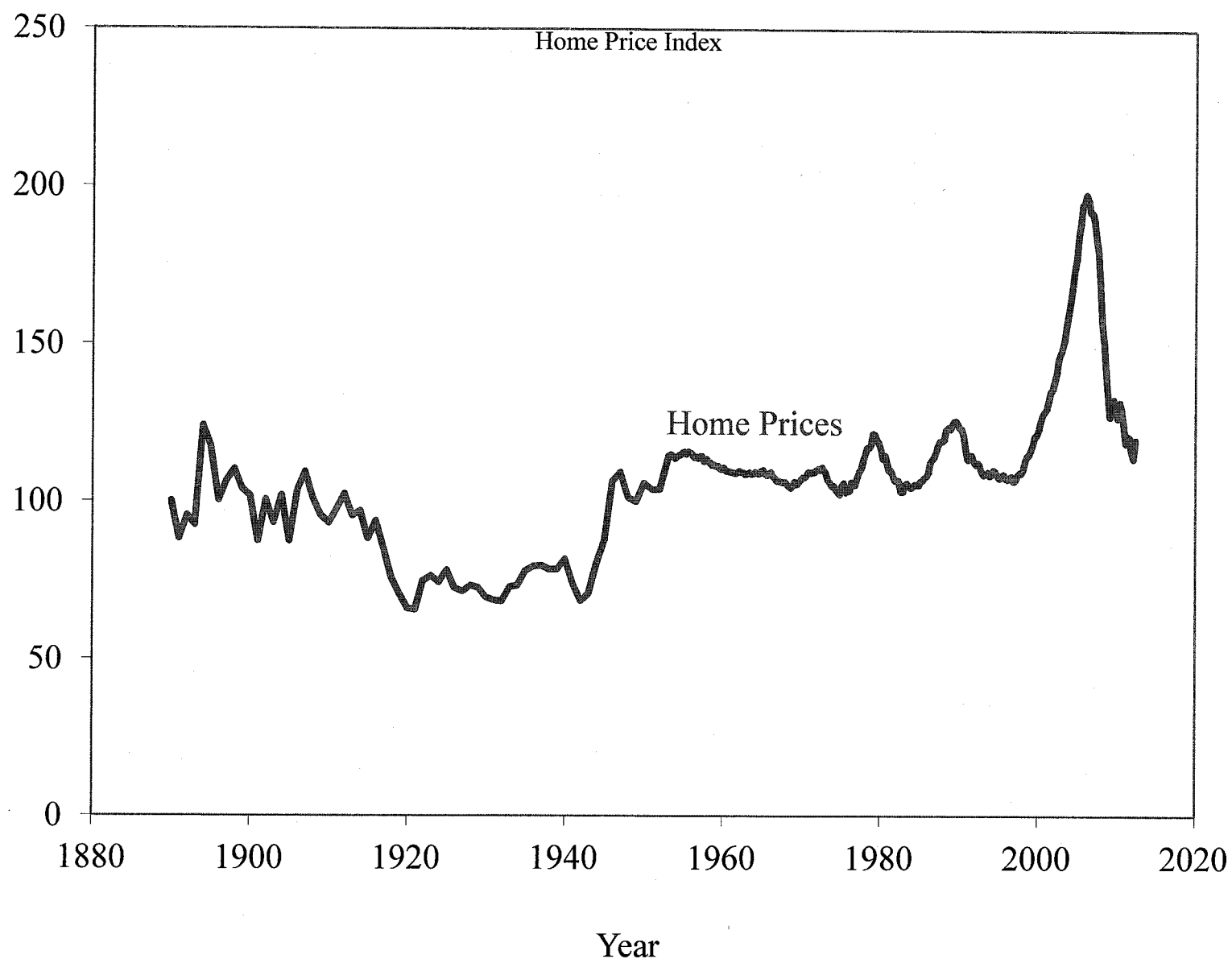
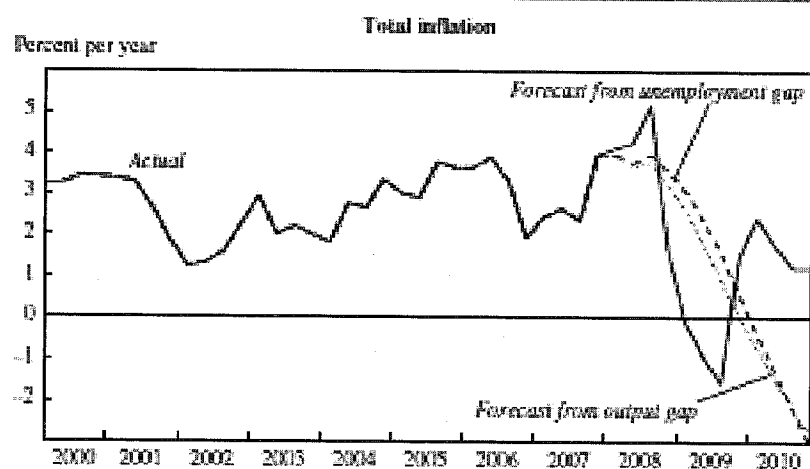
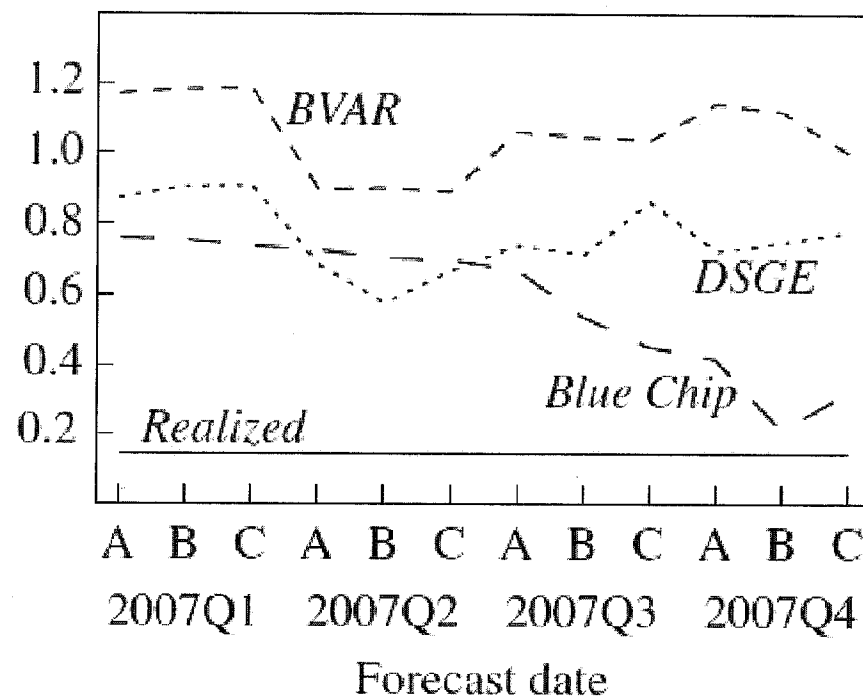


Figure 1. Dynamic Forecasts of Consumer Price Inflation, 2008-10

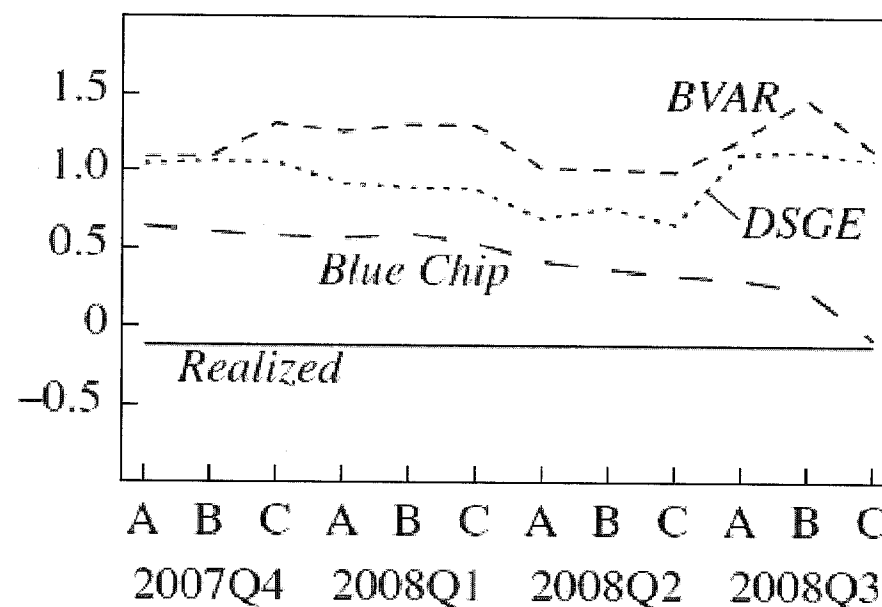


2007Q4 forecasts

Percent per quarter



2008Q3 forecasts



2009Q1 forecasts

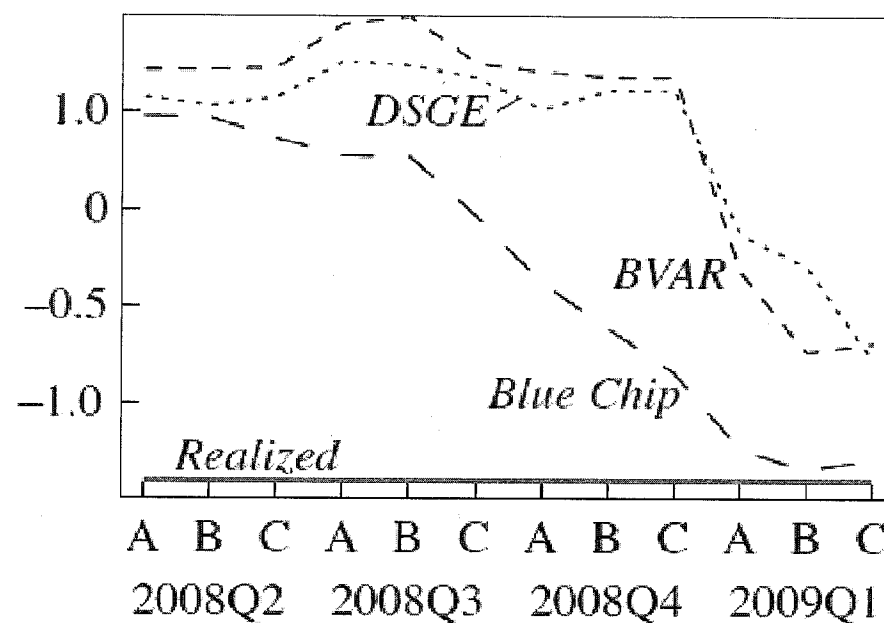
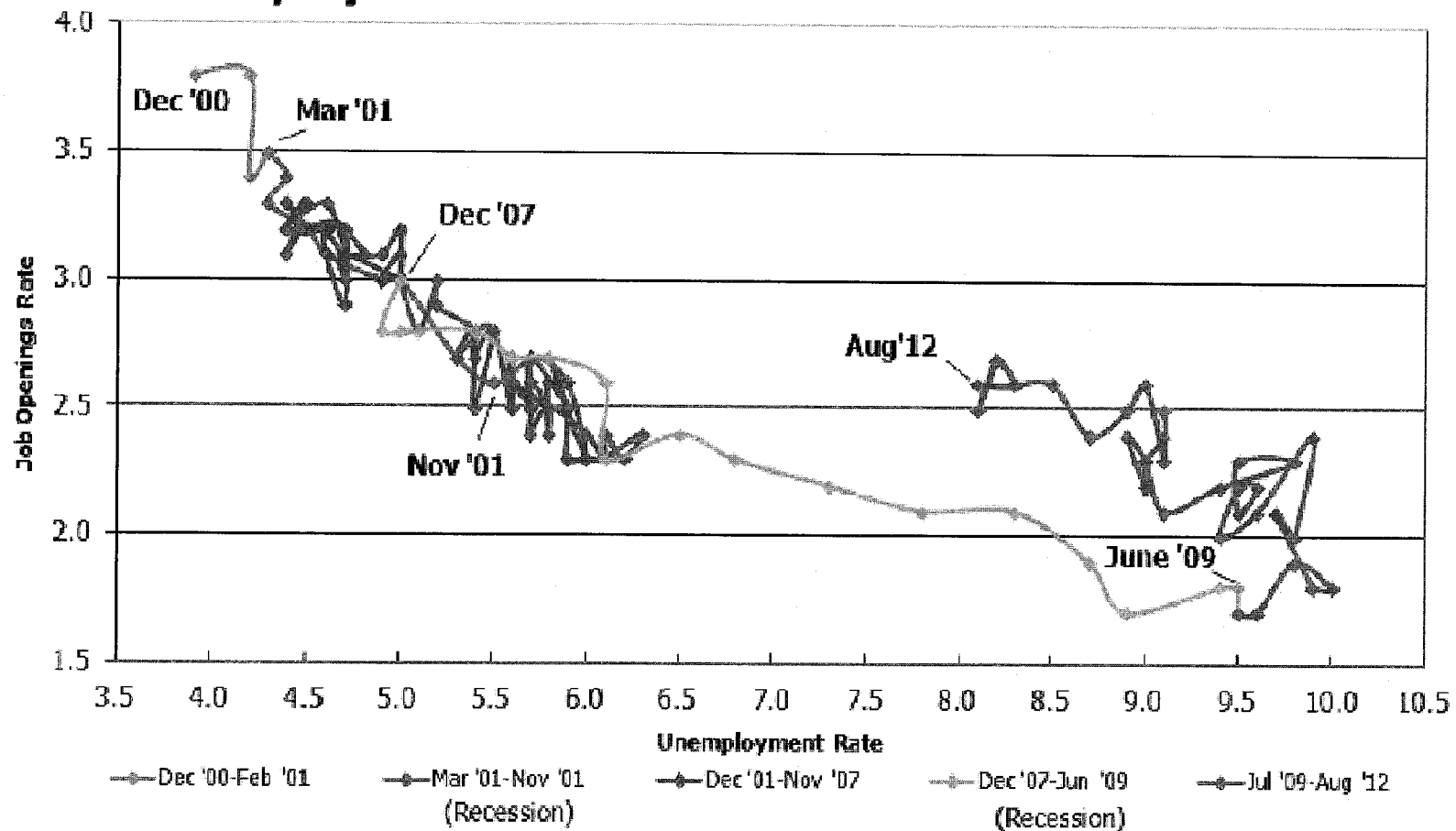


Chart 5. The Beveridge Curve (job openings vs. unemployment rate)
Seasonally adjusted



Source: Bureau of Labor Statistics, Current Population Survey and Job Openings and Labor Turnover Survey, October 10, 2012.

SUMMARY TABLE
SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS

2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2012	2013 (YEAR-OVER-YEAR)	2014	2015
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PERCENT GROWTH AT ANNUAL RATES

1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	1.6	2.2	1.8	2.3	2.5	2.2	2.1	2.7	3.1
5. UNEMPLOYMENT RATE (PERCENT)	8.2	8.1	8.0	7.9	7.8	8.2	7.9	7.3	7.0

Mean Probabilities for Unemployment Rate in 2015

