LECTURE 13

DOES FISCAL POLICY MATTER?
MARCH 4, 2013

I. THE EFFECTS OF FISCAL POLICY IN THE IS-MP-IA MODEL
   A. The Short-Run Effects on Output and the Real Interest Rate: The IS-MP Diagram
   B. The Effects on Output, Inflation, and the Real Interest Rate over Time: The AD-IA Diagram
   C. Discussion

II. HALL’S EVIDENCE
   A. Hall’s Regression
   B. What Question Are We Trying to Answer?
   C. Possible Sources of Omitted-Variable Bias
   D. Results
   E. Hall’s Conclusion

III. NAKAMURA AND STEINSSON’S EVIDENCE
   A. Nakamura and Steinsson’s Basic Model
   B. Possible Sources of Omitted-Variable Bias if We Used OLS
   C. Nakamura and Steinsson’s IV Approach
   D. Results and Discussion

IV. ROMER AND ROMER’S EVIDENCE
   A. Romer and Romer’s Approach
   B. Discussion
   C. Results