LECTURE 19
SHORT-RUN EFFECTS OF FINANCIAL CRISES
APRIL 4, 2013

I. OVERVIEW
   A. Short-run versus long-run impacts
   B. Focus on empirical evidence

II. REVIEW OF IS-MP FRAMEWORK WITH AN INTEREST RATE DIFFERENTIAL
   A. IS-MP with two interest rates, $r^s$ and $r^b$
   B. Modeling a financial crisis
   C. Including the zero lower bound

III. EFFECTS OF FINANCIAL CRISES IN THE GREAT DEPRESSION (BERNANKE)
   A. Overview
   B. Bernanke’s analytical framework
      1. Cost of credit intermediation (CCI)
      2. Why CCI rises in a panic
      3. Increase in CCI shows up in the spread and in credit rationing
      4. Either way, impact on IS is the same
   C. Empirical Evidence
      1. Review of data
      2. Regression specification
      3. Results
      4. Evaluation
   D. Miscellaneous points and summary

IV. IMPACT OF CREDIT DISRUPTION ON ECONOMIC ACTIVITY (PEEK AND ROSENGREN)
   A. Overview
   B. Peek and Rosengren’s natural experiment
   C. Testing whether lending responds to financial disruption
      1. Suggestive state-level evidence
      2. Bank-level regressions
   D. Testing whether output responds to exogenous changes in lending
      1. Data
      2. Methodology
      3. Results