LECTURE 7

MONETARY FACTORS IN THE GREAT DEPRESSION
FEBRUARY 12, 2013

I. MONETARY ARRANGEMENTS IN THE 1920S
   A. Early Federal Reserve
   B. Gold standard

II. MONETARY CONTRACTION IN 1928
   A. U.S. economy in the 1920s
   B. Fed tightens to stem stock market bubble
   C. Effect in the IS-LM model
   D. International repercussions

III. MONETARY FACTORS AND THE 1929 PLUNGE
   A. Output plummets in late 1929
   B. Fall in the real interest rate suggests a shift in IS curve
   C. Monetary policy immediately after the stock market crash

IV. BANKING PANICS
   A. Four waves of panics
   B. Modeling the effect of a panic
      1. Money market
      2. IS-LM
   C. Role of a fall in expected inflation (to expected deflation)
      1. Evidence of expected deflation
      2. Source of expected deflation
      2. Impact in IS-LM model
   D. Why didn’t the Federal Reserve act?

V. GOLD STANDARD
   A. Transmission of Great Depression from U.S. to the rest of the world
   B. Was the Federal Reserve constrained by the gold standard?
   C. October 1931 monetary shock