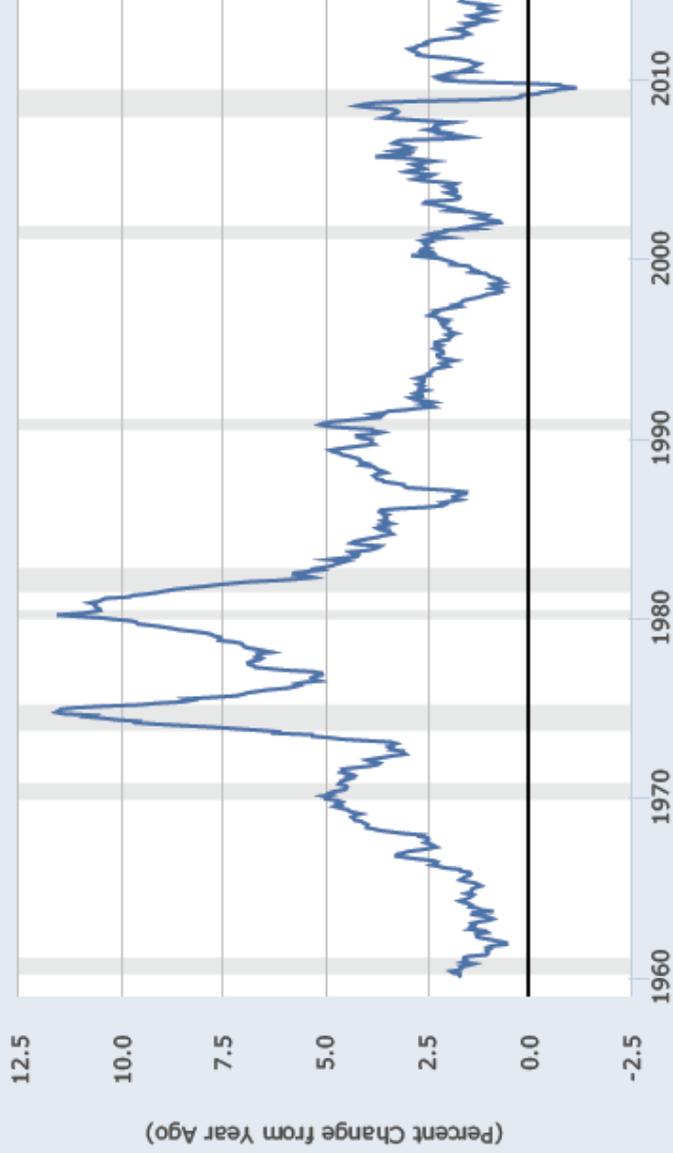


Lecture Outline, 8/28
THE CRISIS IN MACROECONOMICS

- A. Background: The Great Moderation and the New Keynesian Model
- 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 in 2008 and 2009
 - 1. Some facts
 - 2. Why were the real effects of the financial stress so large?
- D. The Slow Recovery
 - 1. Some facts
 - 2. Implications for the costs of fluctuations?
 - 3. Are large macroeconomic costs of financial crises inevitable?
 - 4. The challenges of disentangling cyclical and structural movements, and of determining whether cyclical changes have left permanent scars
- 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. A Little on the Papers by Caballero and Ohanian
- G. 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
- H. 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
- I. A Few Thoughts about the Fiscal and Monetary Responses
 - 1. The gap between frontier academic models and models used in practice
 - 2. The political economy of fiscal stimulus
 - 3. The political economy of monetary policy
 - 4. Possible long-run threats from the monetary and fiscal responses to the crisis
- J. How Will the Crisis Change Macroeconomics?



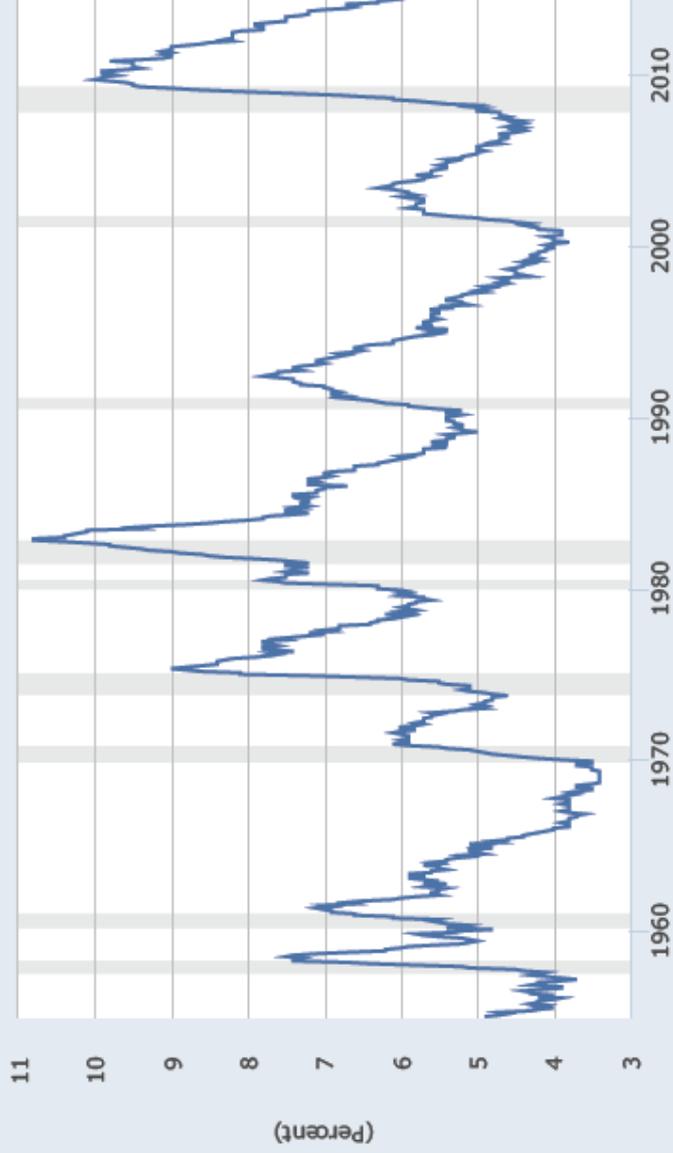
Personal Consumption Expenditures: Chain-type Price Index



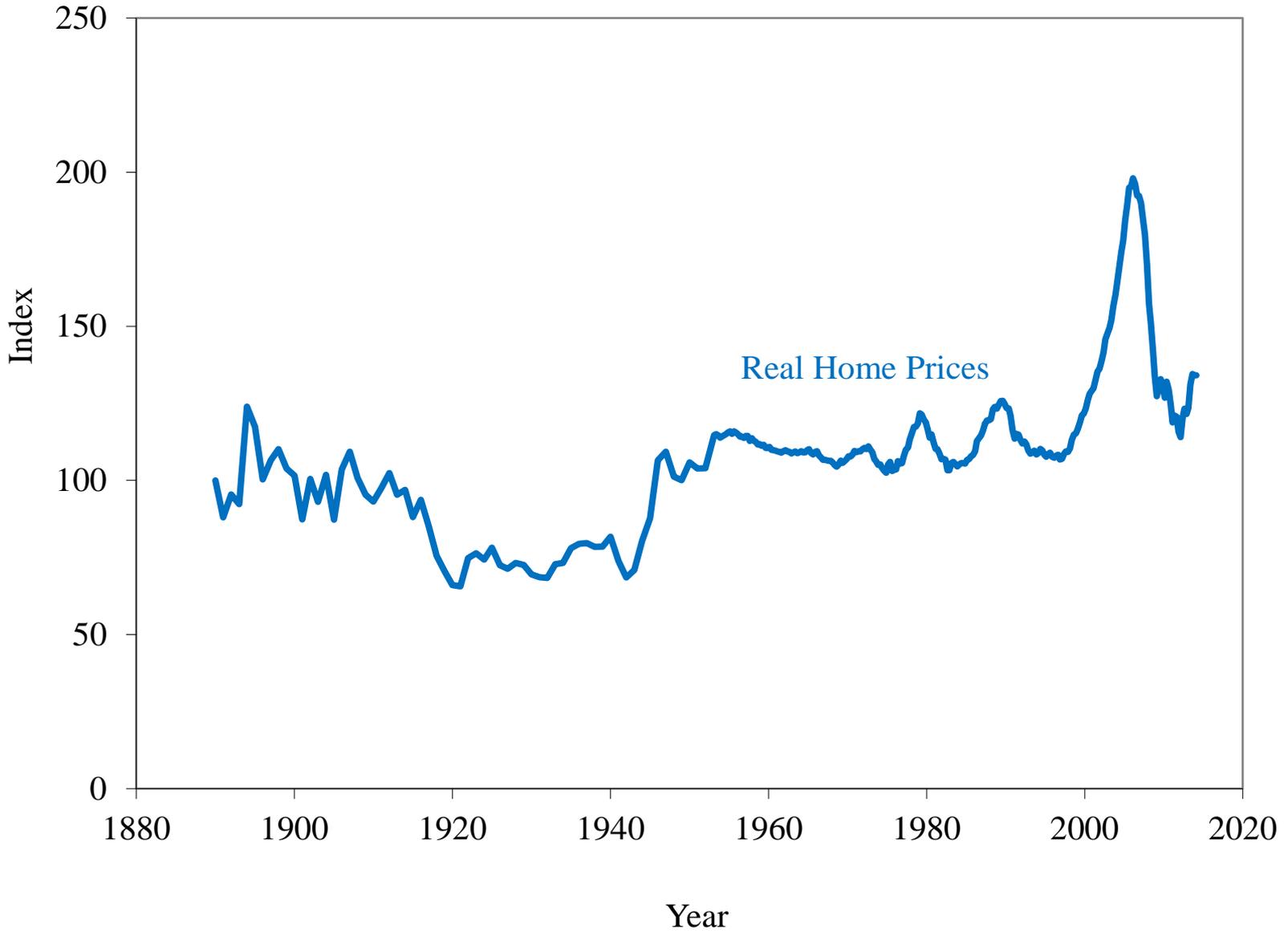
Source: U.S. Department of Commerce: Bureau of Economic Analysis
Shaded areas indicate US recessions - 2014 research.stlouisfed.org



Civilian Unemployment Rate



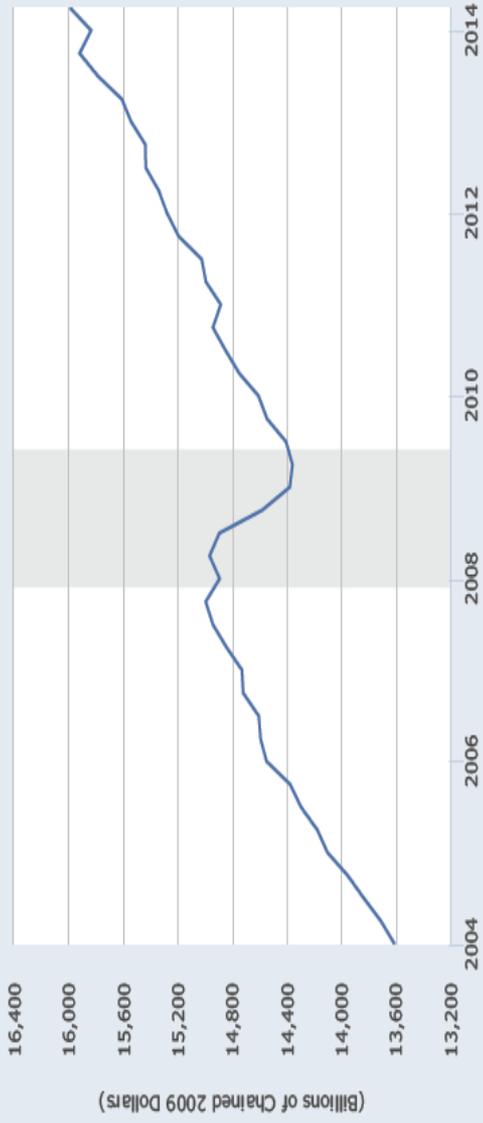
Source: U.S. Department of Labor: Bureau of Labor Statistics
Shaded areas indicate US recessions - 2014 research.stlouisfed.org



Source: Robert Shiller



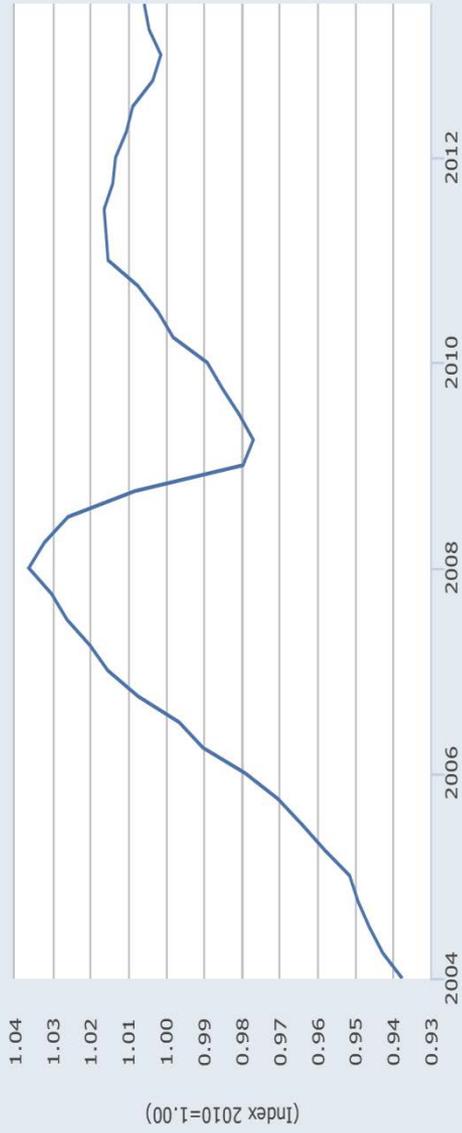
— Real Gross Domestic Product



Source: U.S. Department of Commerce: Bureau of Economic Analysis
 Shaded areas indicate US recessions - 2014 research.stlouisfed.org



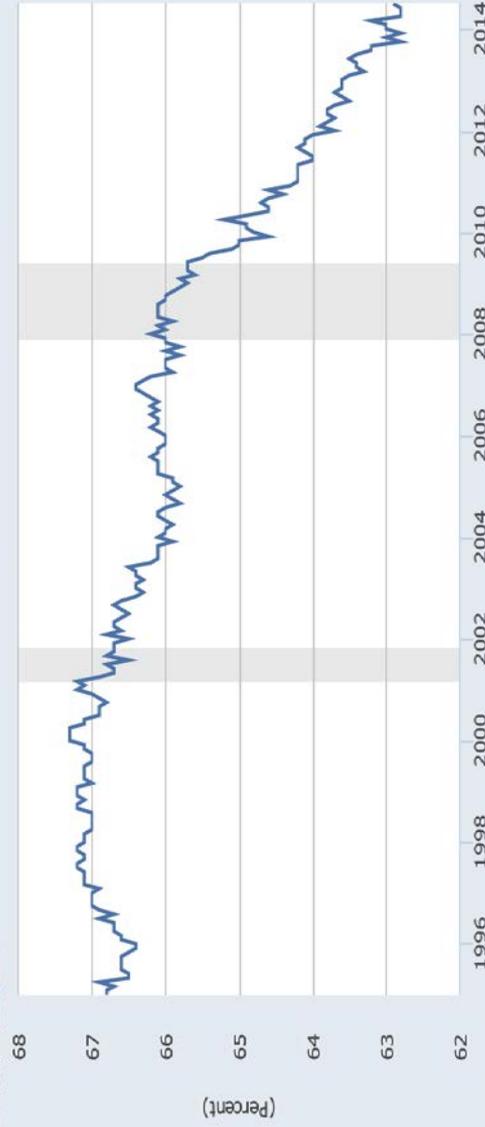
— Gross Domestic Product by Expenditure in Constant Prices: Total Gross Domestic Product for the Euro Area[Ⓒ]



Source: Organisation for Economic Co-operation and Development
 2014 research.stlouisfed.org



— Civilian Labor Force Participation Rate



Source: U.S. Department of Labor: Bureau of Labor Statistics
 Shaded areas indicate US recessions - 2014 research.stlouisfed.org

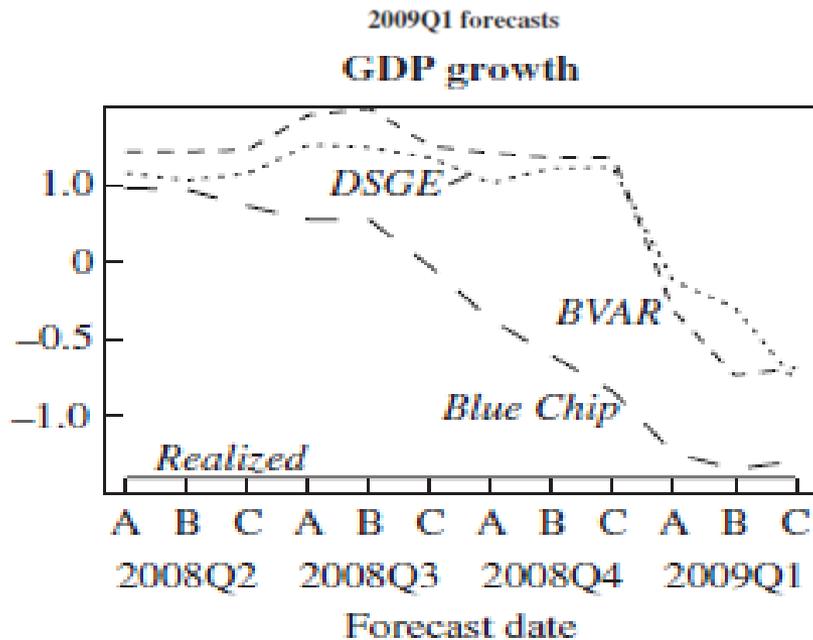
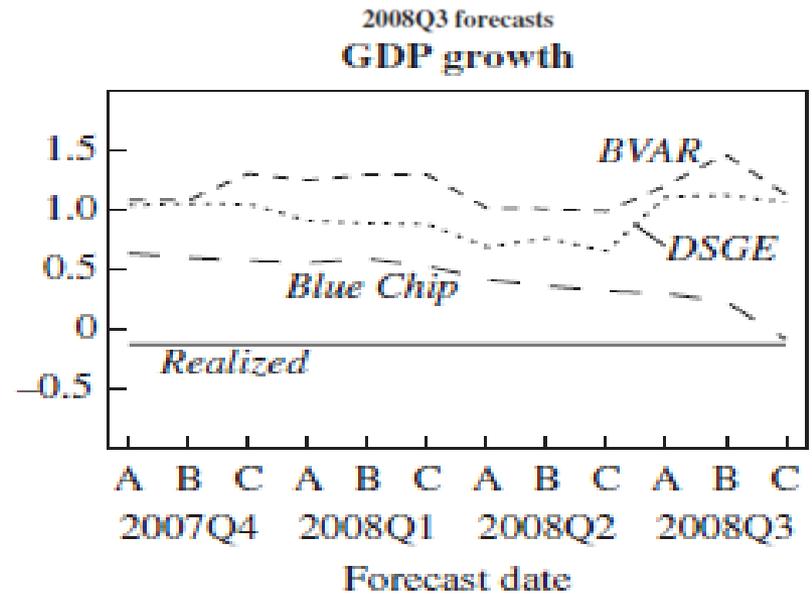
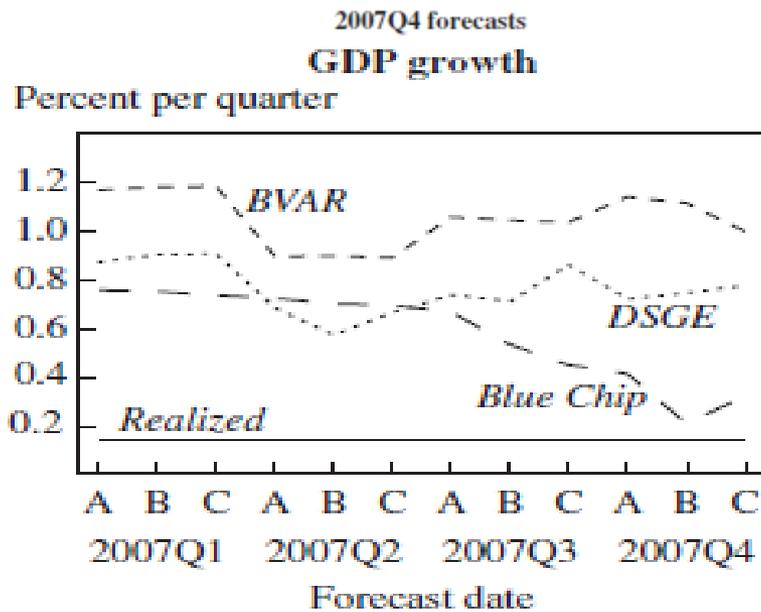
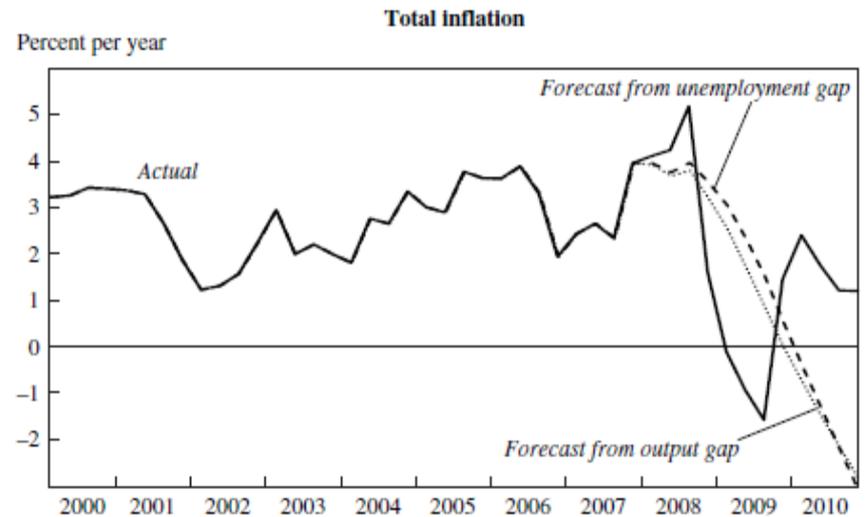


Figure 1. Dynamic Forecasts of Consumer Price Inflation, 2008–10*



Sources: Edge and Gurkaynak (BPEA, 2010); Ball and Mazumder (BPEA, 2011).