MACROECONOMIC CRISIS

O. INTRODUCTION
   A. Two Views of Macroeconomics
   B. This Week’s Lectures

I. THE MACROECONOMIC AND FINANCIAL CRISIS OF 2007 AND BEYOND
   A. Background: The Great Moderation
      1. Macroeconomic performance from 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
      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. 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
   F. 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
   G. 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)
H. Some Other Issues Raised by the Crisis Thus Far
   1. The costs of macroeconomic fluctuations
   2. The behavior of inflation
   3. How much of current high unemployment is structural?
   4. The political economy of monetary policy
I. 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.
J. Kocherlakota’s Speech
K. 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
   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