Administrative Issues

• Course website: http://www.ssc.wisc.edu/~mchinn/web435_f14.html
• OH: TuTh 1-2, 7418 Soc Sci
• Textbook: Chinn/Frieden, *Lost Decades*
• Cecchetti/Schoenholtz, or Mishkin
• Additional Readings: from web, Econbrowser, CBO
• *NYT, FT, WSJ, Economist*
Administrative Issues

• Grading: 10% PS, 50% 2×MT, 40% paper
• Dates:
  - MT on 10/14, 11/20
  - Paper due on Fri, 12/11
• Make-ups: None. Points are re-allocated if you have a legitimate excuse. No late assignments accepted (must be handed in during lecture)
Outline

• The Financial Crisis of 2008-09
• The Great Recession of 2007-09 and the slow recovery
• Extraordinary monetary policies
• Europe
Risk and Crisis

Figure 1. Bank Systemic Risk Indicators
(In basis points)

3-Month Libor Minus Overnight Index Swap Spreads
- United States
- Euro Area
- United Kingdom

5-Year Bank Credit Default Swap Spreads
- United States
- Euro Area
- United Kingdom

Sources: Bloomberg L.P.; and Datastream.
Motivating Questions

• Why did the financial crisis occur?
• Was it all financial?
• How did financial problems get transmitted to the real side?
• What are the similarities and differences between the past episodes (e.g., the 1929 crash) and this crisis.
Government and national borrowing

Note: Fed. Budget balance is net lending. Source: BEA
Real interest rates

Source: Federal Reserve Board, Philadelphia Fed SPF
The “Disappearance” of Risk

Figure 3. Advanced and Emerging Markets: Sovereign and Corporate Bond Spreads, 1998–2008

(In basis points)

Source: IMF, WEO update, 11/6/08
Household debt (I)

Source: BIS, Annual Report (2011)
Household debt (II)

Source: BIS, Annual Report (2011)
Housing boom (I)

Note: Rescaled to 2001Q4=1.
Source: BIS, Annual Report (2011)
Housing boom (II)

Note: Rescaled to 2001Q4=1.
Source: BIS, Annual Report (2011)
Leverage (as of 2007)

![Bar chart showing leverage as of 2007 for different financial institutions.]

Source: Greenlaw, Hatzius, Kashyap, and Shin (2008)
Boom and Bust in the Shadow Financial System

Source: Federal Reserve Board
Leading to Recession/Depression

Source: BEA, 2012Q3 3<sup>rd</sup> release, CBO (Aug. 2012), WSJ
Consumption and Wealth

Source: BEA, 2014Q2 2nd release, Fed Flow of Funds
Source: BEA, 2013Q3 3rd release
Conventional Monetary Policy

Source: St. Louis Fed FRED system
Quantitative Easing, Operation Twist

http://www.clevelandfed.org/research/data/credit_easing/index.cfm
The Other Side of the Fed Balance Sheet

Policy Uncertainty

Europe

Figure 1. The Escalating Cycle of Turmoil

Source: Bloomberg L.P.; and IMF staff estimates.
ECB Drives Down Sovereign Yields

Source: ECB
The Current Puzzle

[Graph showing trends in Federal debt held by public, to GDP ratio and Ten year Treasurys, with a right scale, and Ten year minus exp'd inflation and TIPS on the left scale.]