

Economics 442
Macroeconomic Policy

Lecture 1

9/2/2020

Instructor: Prof. Menzie Chinn

UW Madison

Fall 2020

Administrative Issues

- Course website:
http://www.ssc.wisc.edu/~mchinn/web442_f20.html
and Canvas (BBCollaborate)
- OH: TBA
- Textbook: Blanchard, *Macroeconomics*
- Additional Readings: from IMF, CBO, web, Econbrowser
- *NYT, FT, WSJ, Economist*

Administrative Issues

- Grading: 30% PS, 40% 2×MT, 30% paper
- Dates:
 - MT on 10/18, 11/19
 - **Paper due on Thursday, 12/10**
- Make-ups: **None**. Points are re-allocated *if* you have a legitimate excuse. **No** late assignments accepted

Background

- Course with policy orientation
- Theoretical background consistent with New Keynesian approach
 - sticky prices & information based frictions in short run
 - Neoclassical (flex-price) in the long run
- Focus on interpretation of data, response to shocks

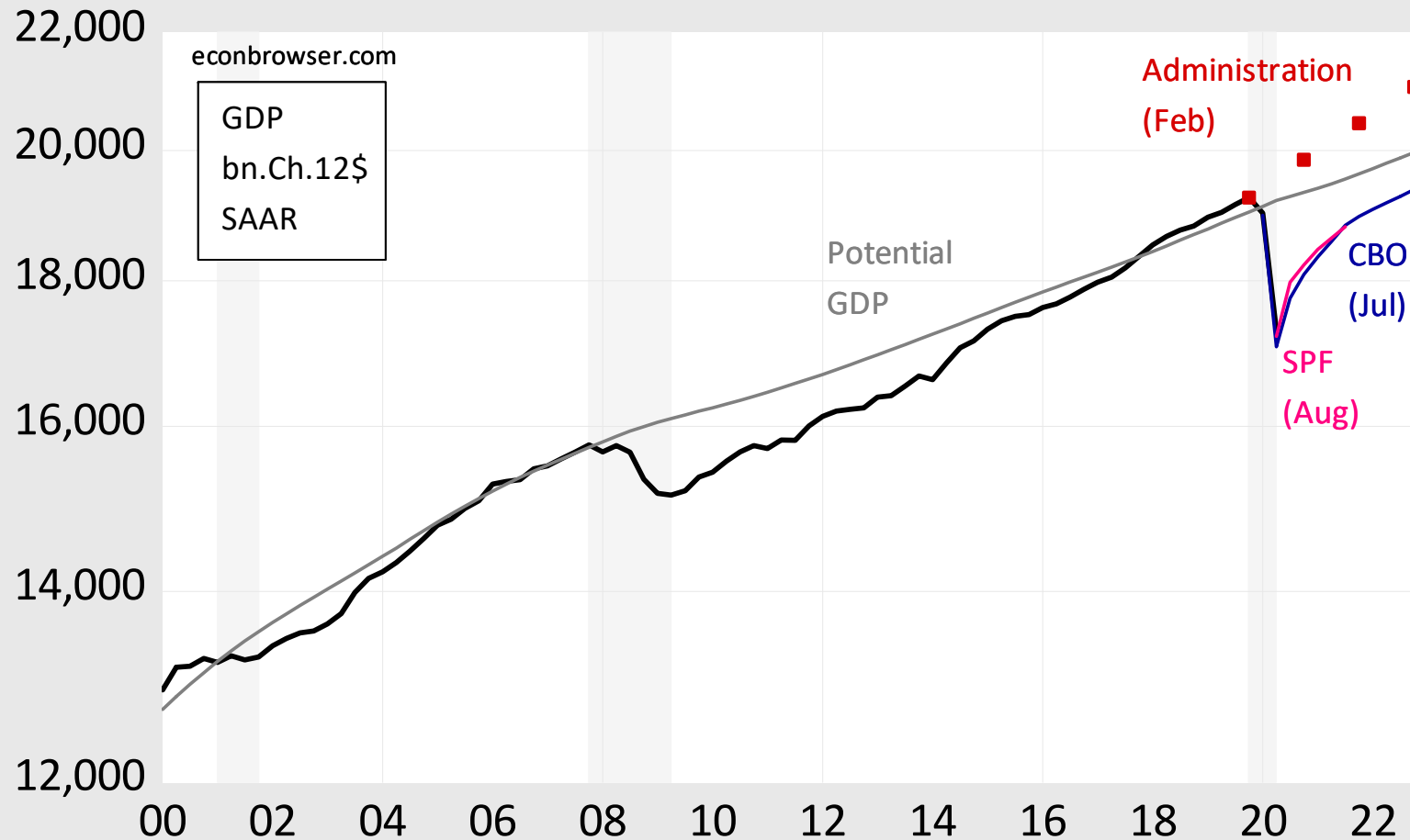
Background

- Senior economist, White House Council of Economic Advisers
- Covered open economy macro, trade balance, foreign economies (China, Japan, euro area)
- Consultant to International Monetary Fund (IMF), Congressional Budget Office (CBO), Bank of France

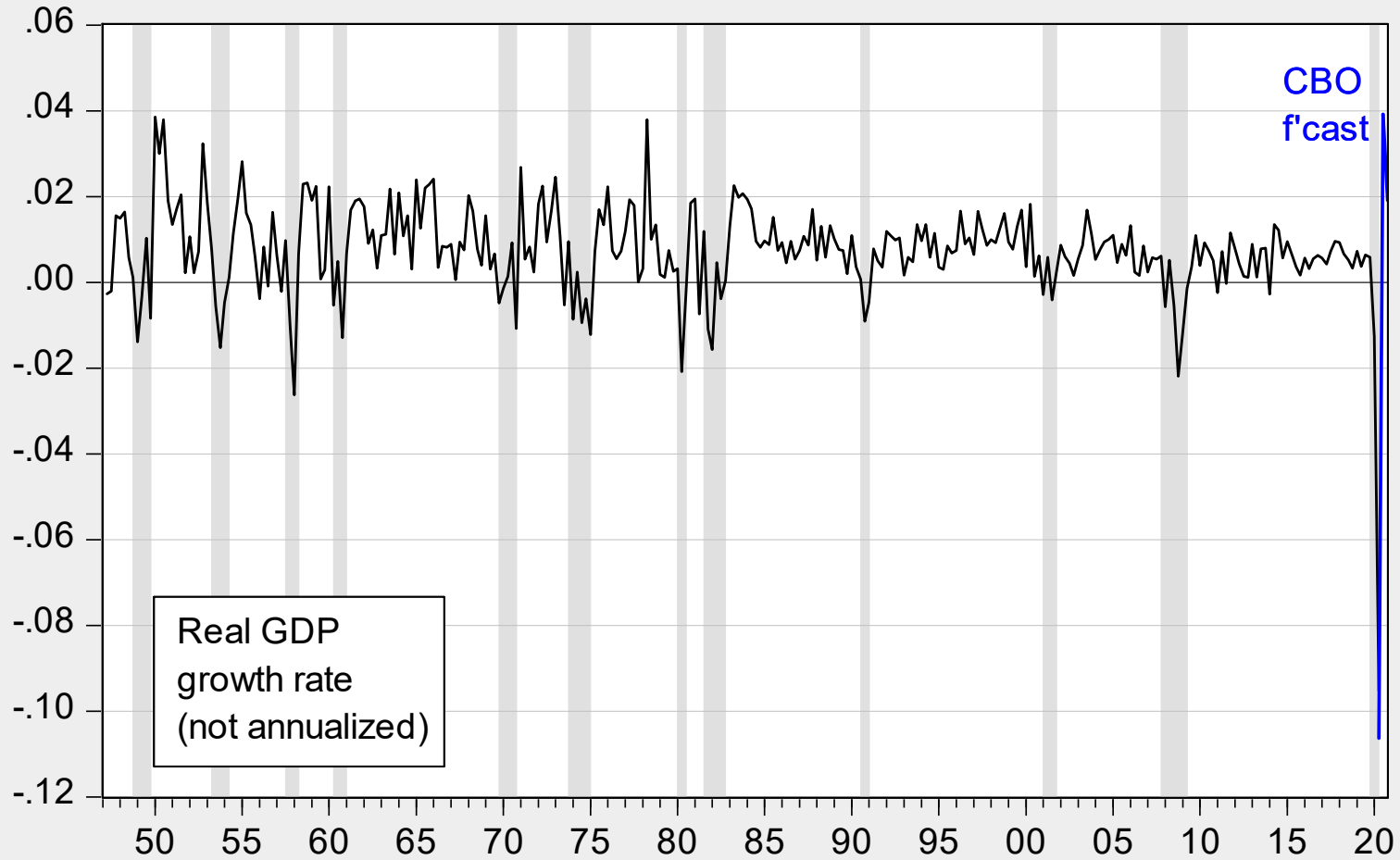
Schedule and Readings

LEC.	DATES	Blanchard	READING	TOPICS
1	9/2		Start	Introduction
2-5	9/9-21	3-6	CBO, ISLM, PCO, KC	IS-LM
6-8	9/23-30	7	ADAS	AD-AS
9-10	10/5-7		NBER, EWS	Recession def'n, tracking
11-12	10/12-14		BF	Covid-19 recession
13	10/19			Midterm 1
14-16	10/21-28	22	Chinn	Fiscal policy debate
17-18	11/2-4	23	Ku	Monetary policy debate
19-21	11/9-16	8-9	BCS, CGK	Phillips curve
22	11/18			Midterm 2
23-26	11/23-12/2	17-20	Open	Open economy
27-28	12/7-9		BBD	Policy uncertainty

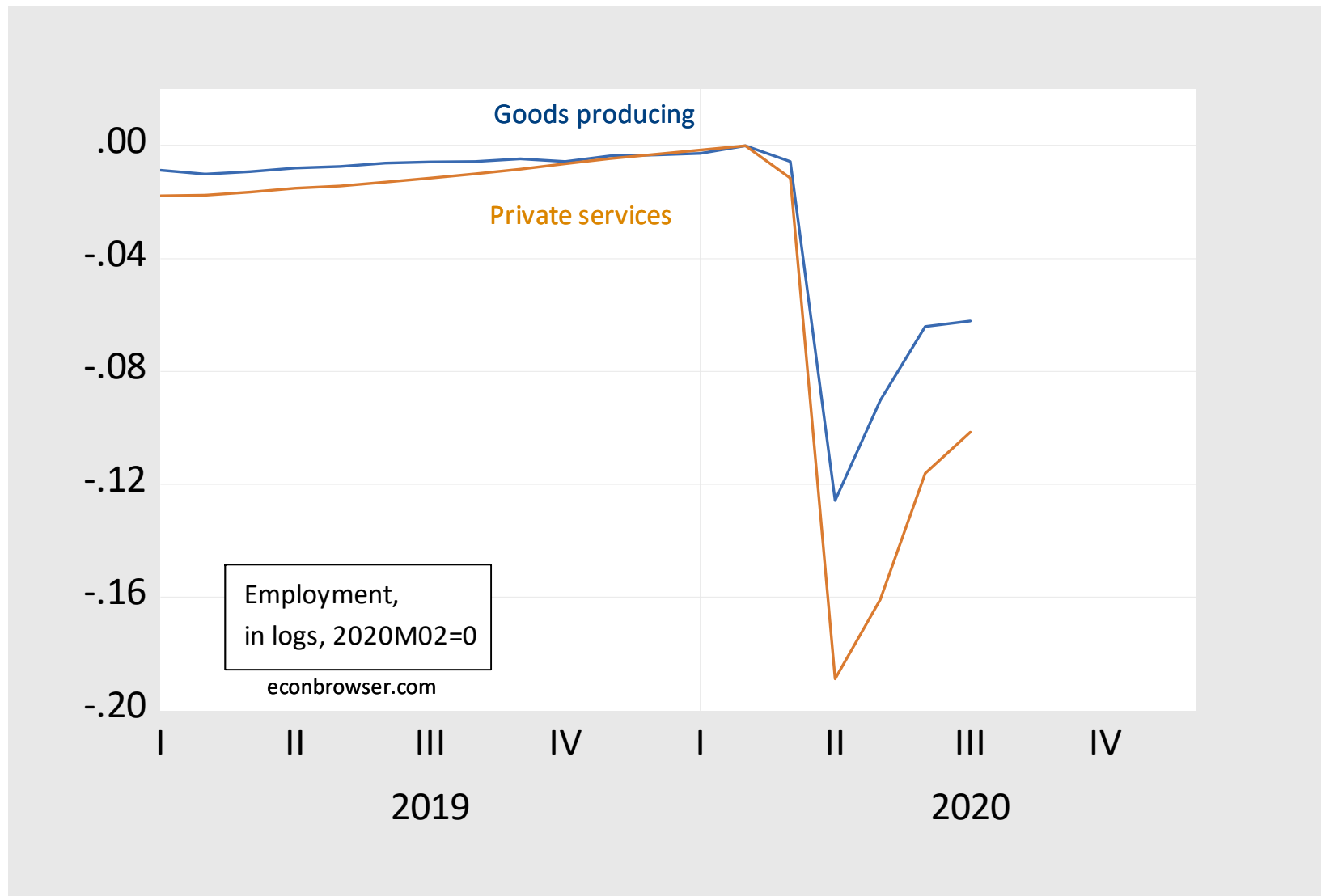
A Deep, Deep Recession



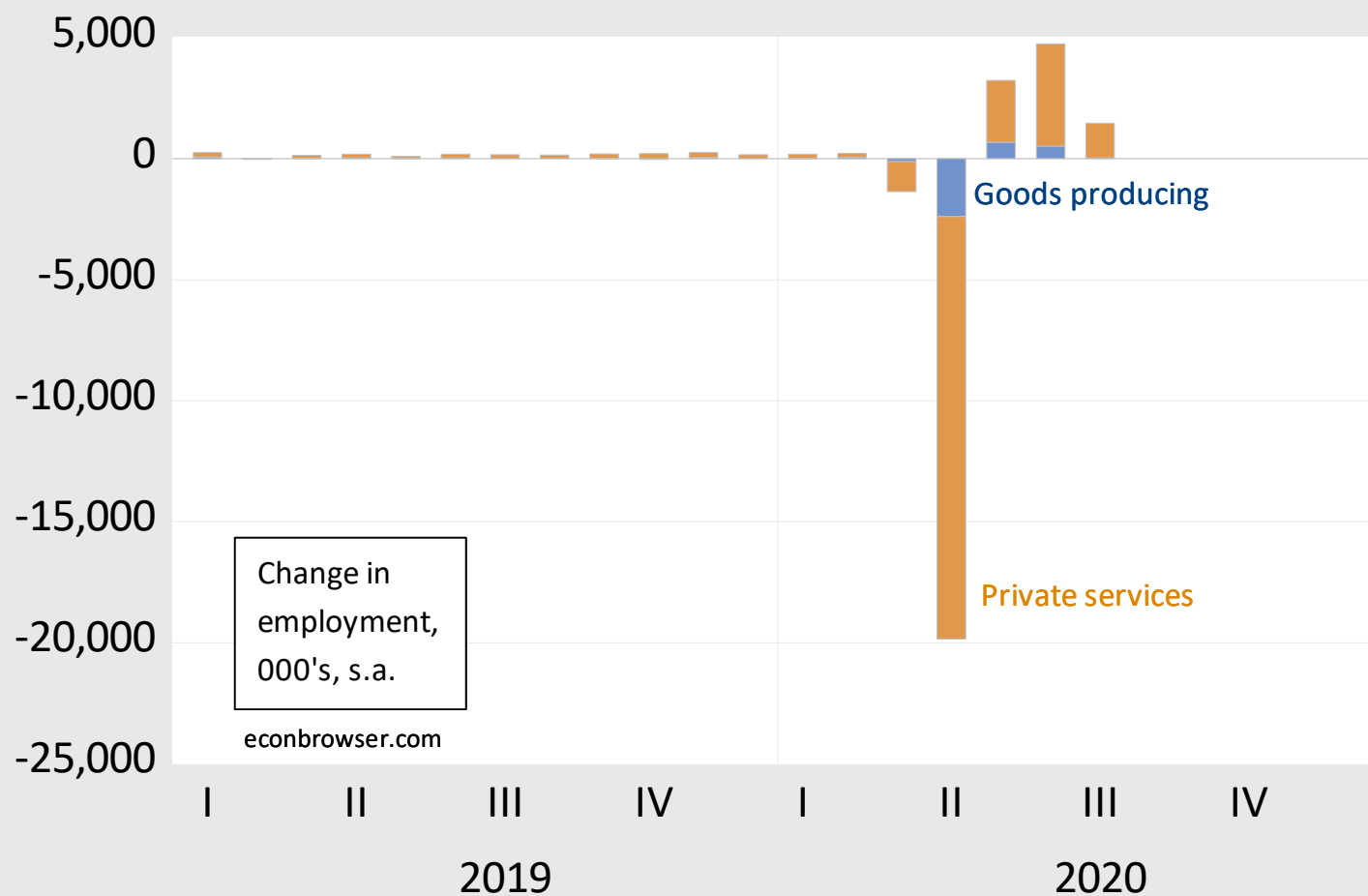
Also an Atypical Recession



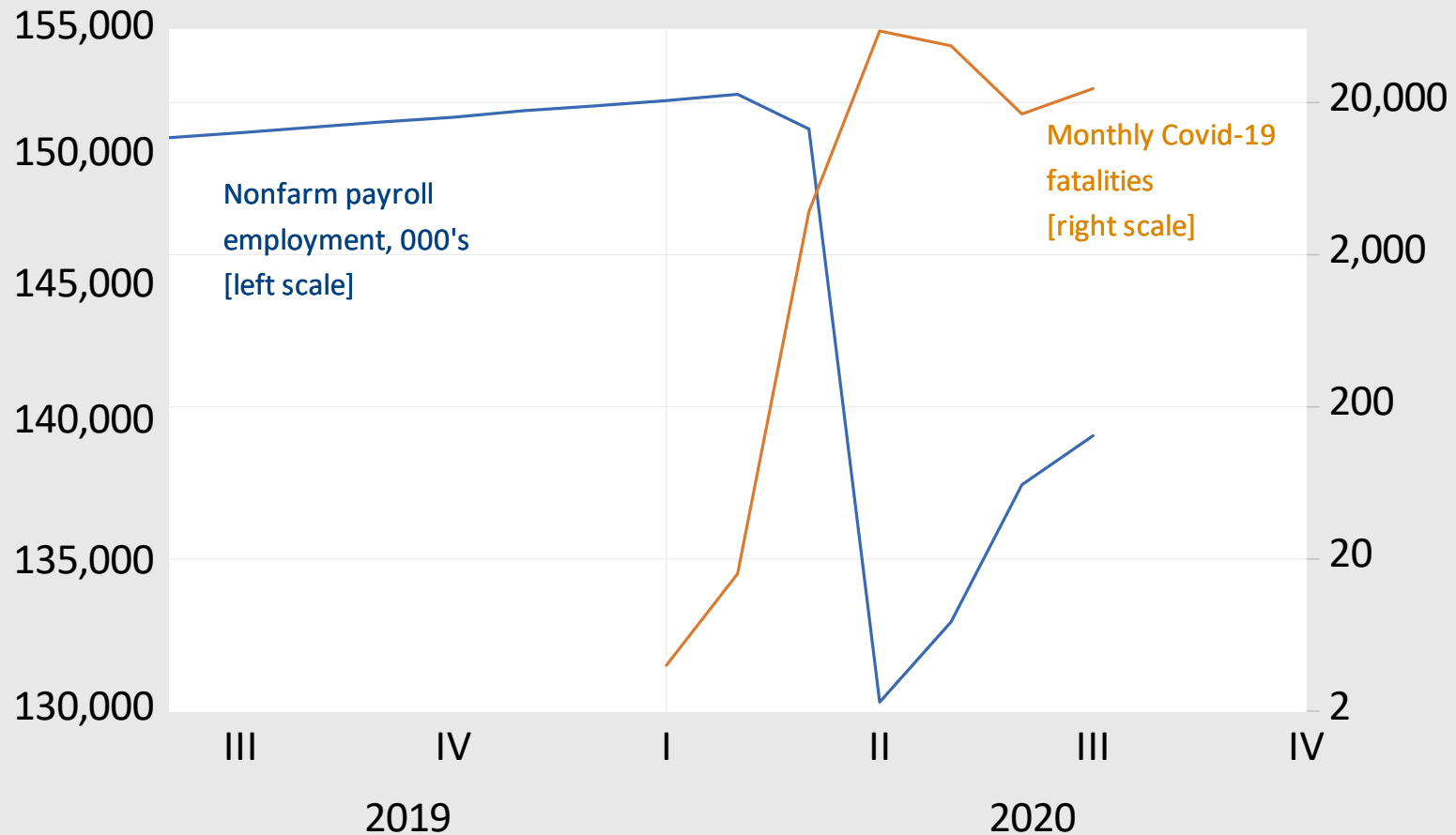
Big Sectoral Shock to Services



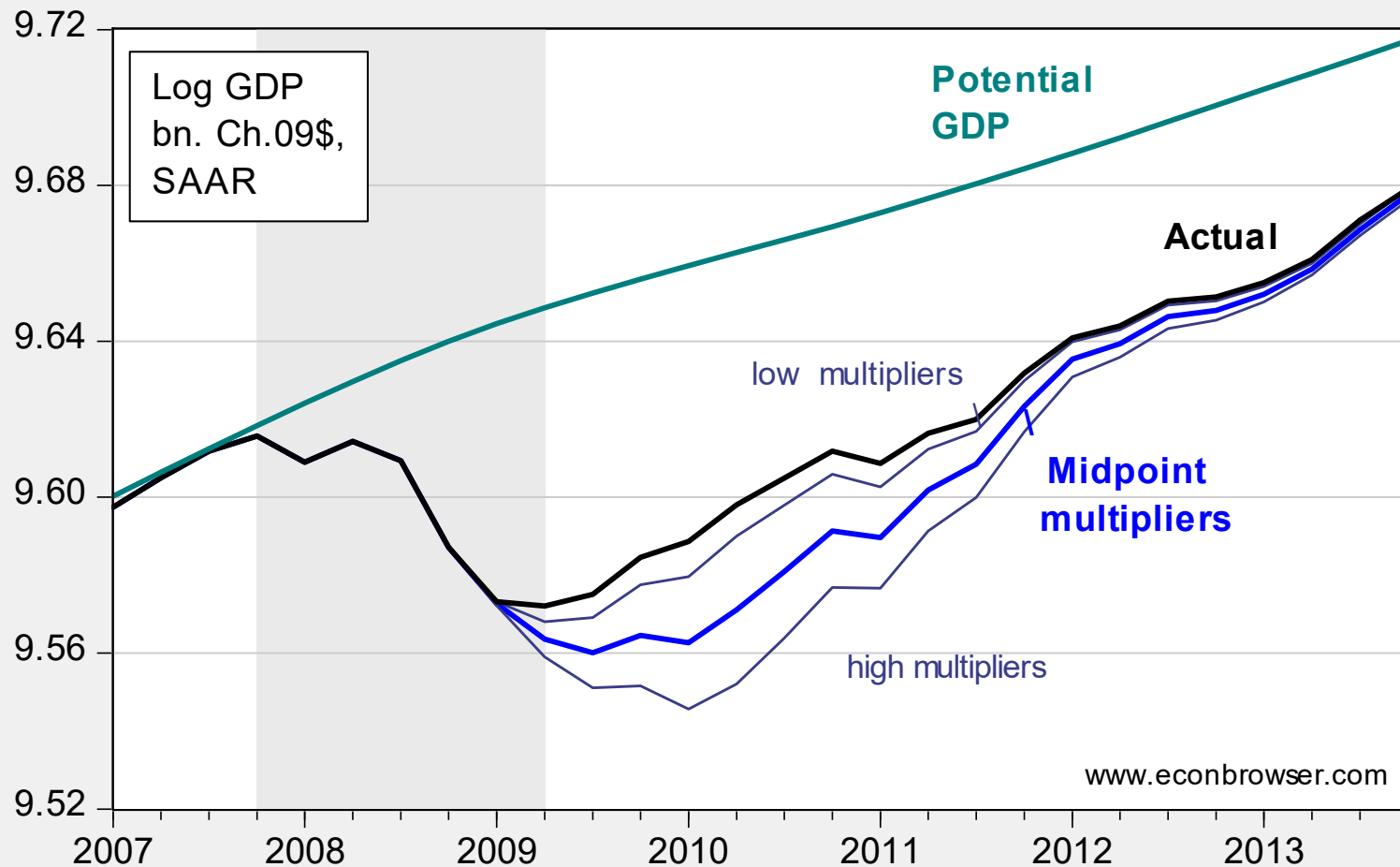
Big Sectoral Shock to Services



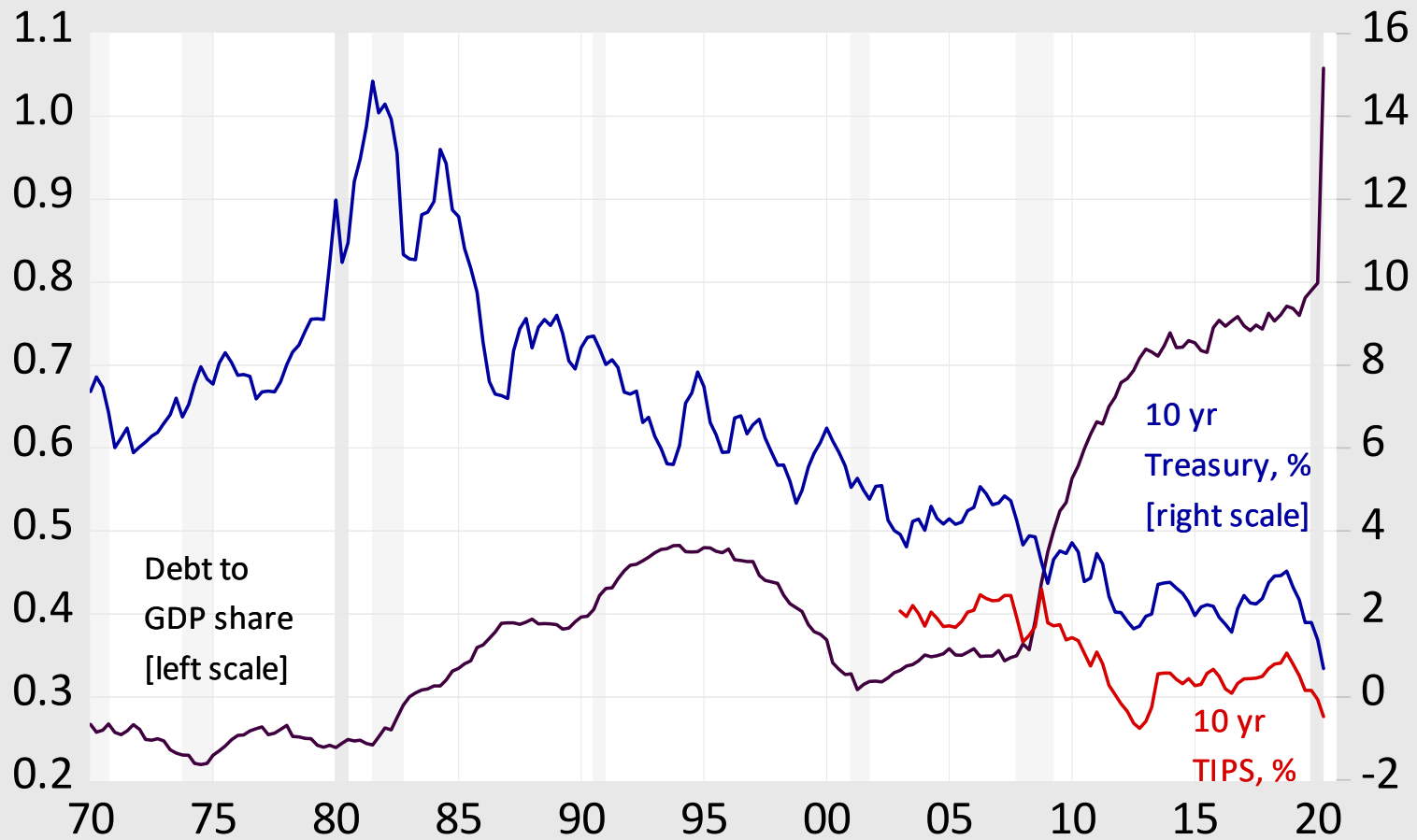
A Stop & Go Recession?



How Big Are Multipliers



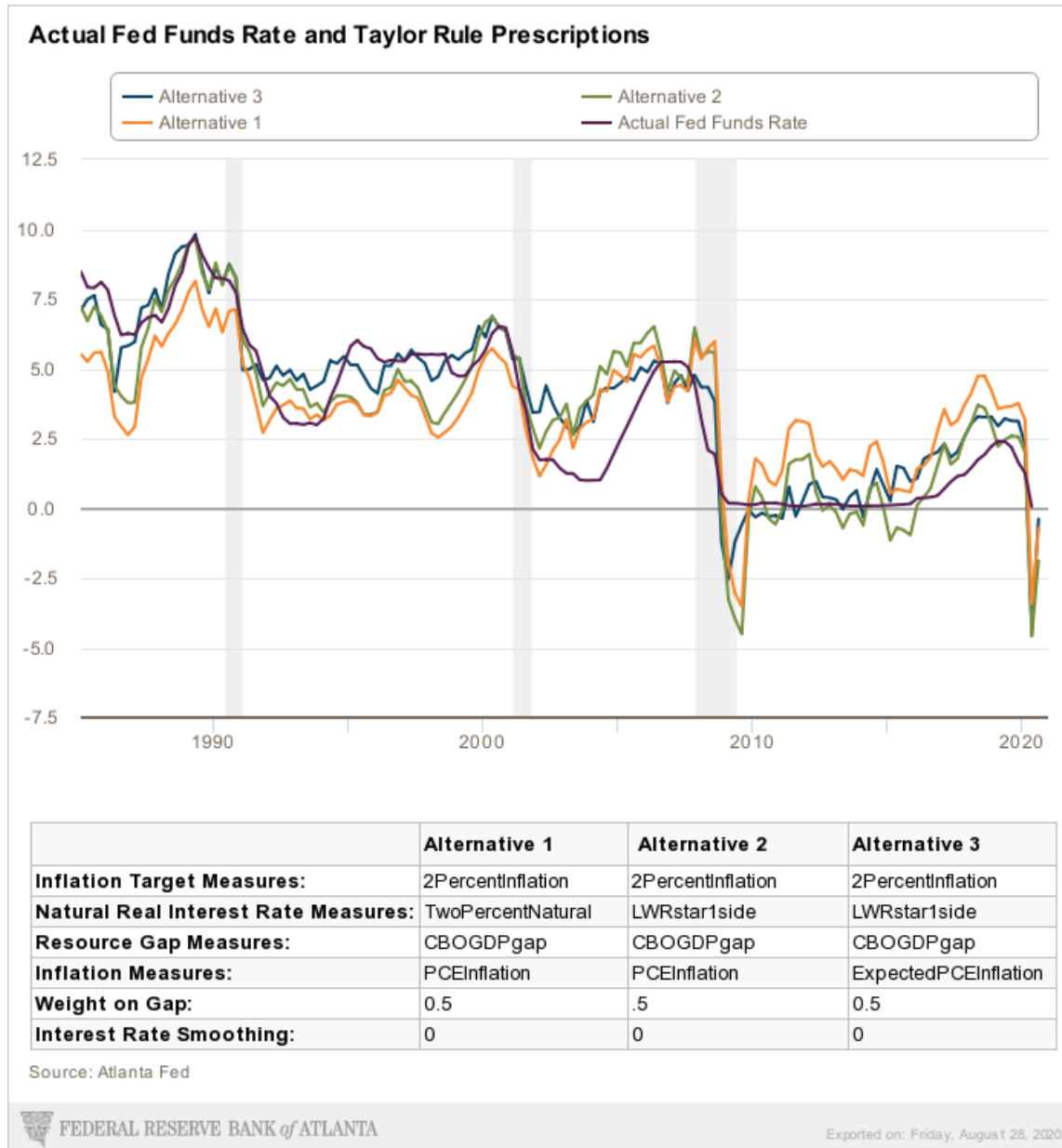
Crowding Out?



Monetary Policy & Taylor Rule

- $i_t^{FF} = \bar{i} + a(\pi_t - \bar{\pi}) - b(u_t - u_n)$
- $y_t - y_n = -\lambda(u_t - u_n)$
- $i_t^{FF} = \bar{i} + a(\pi_t - \bar{\pi}) + \frac{b}{\lambda}(y_t - y_n)$

The Taylor Rule Falls Short

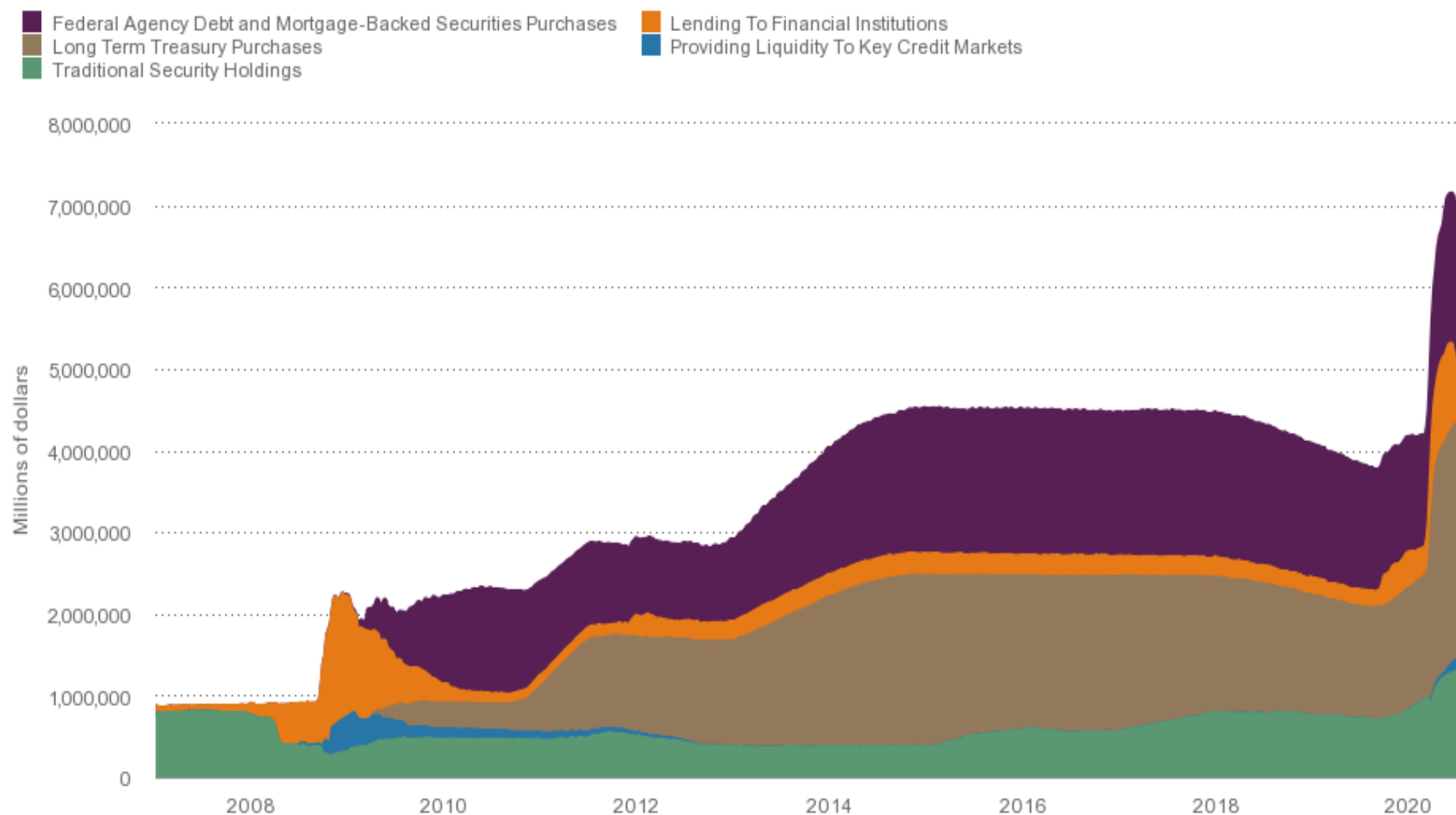


Unconventional Monetary Policy (I)

(Credit Easing/Quantitative Easing)

Summary View

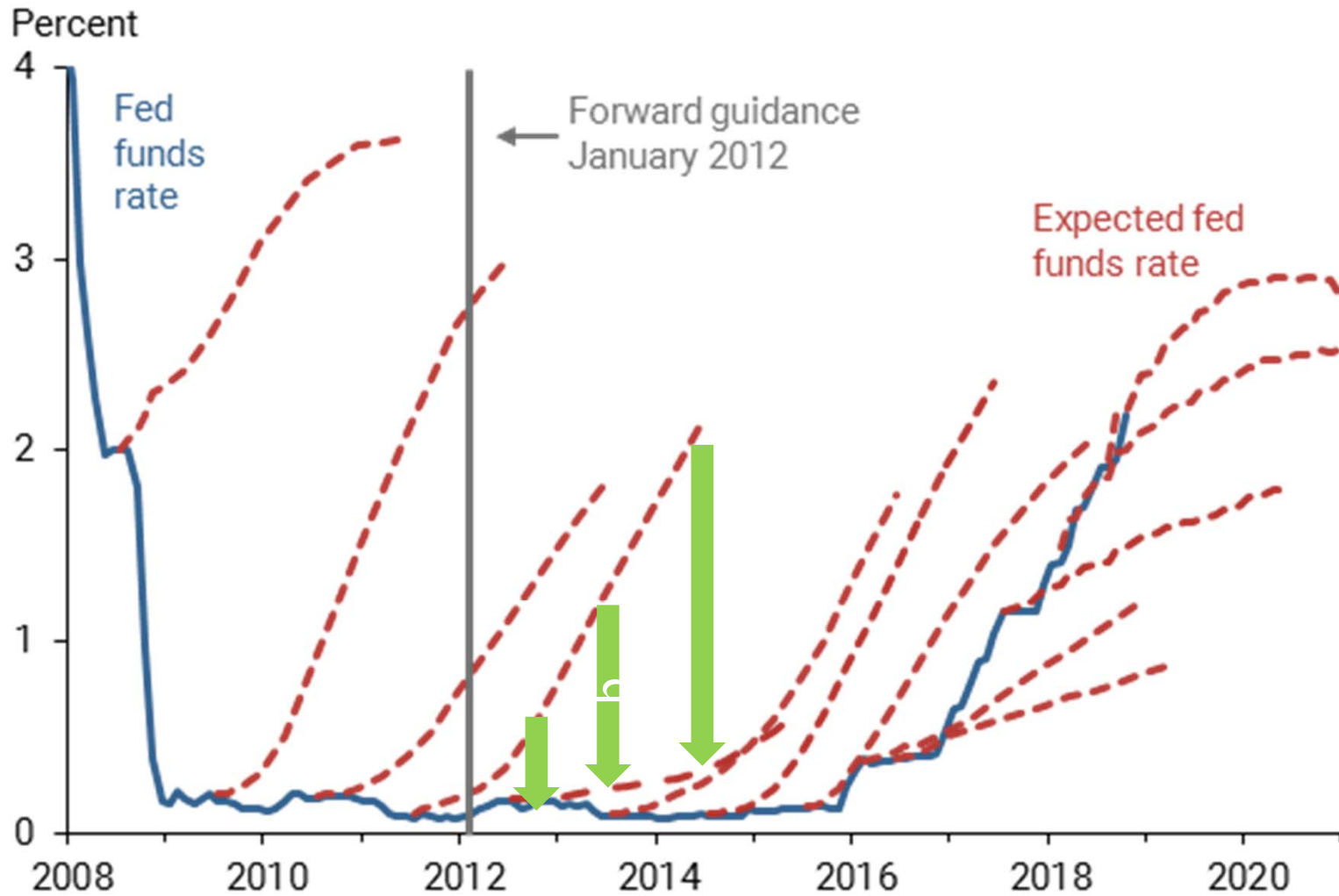
Click/drag to zoom



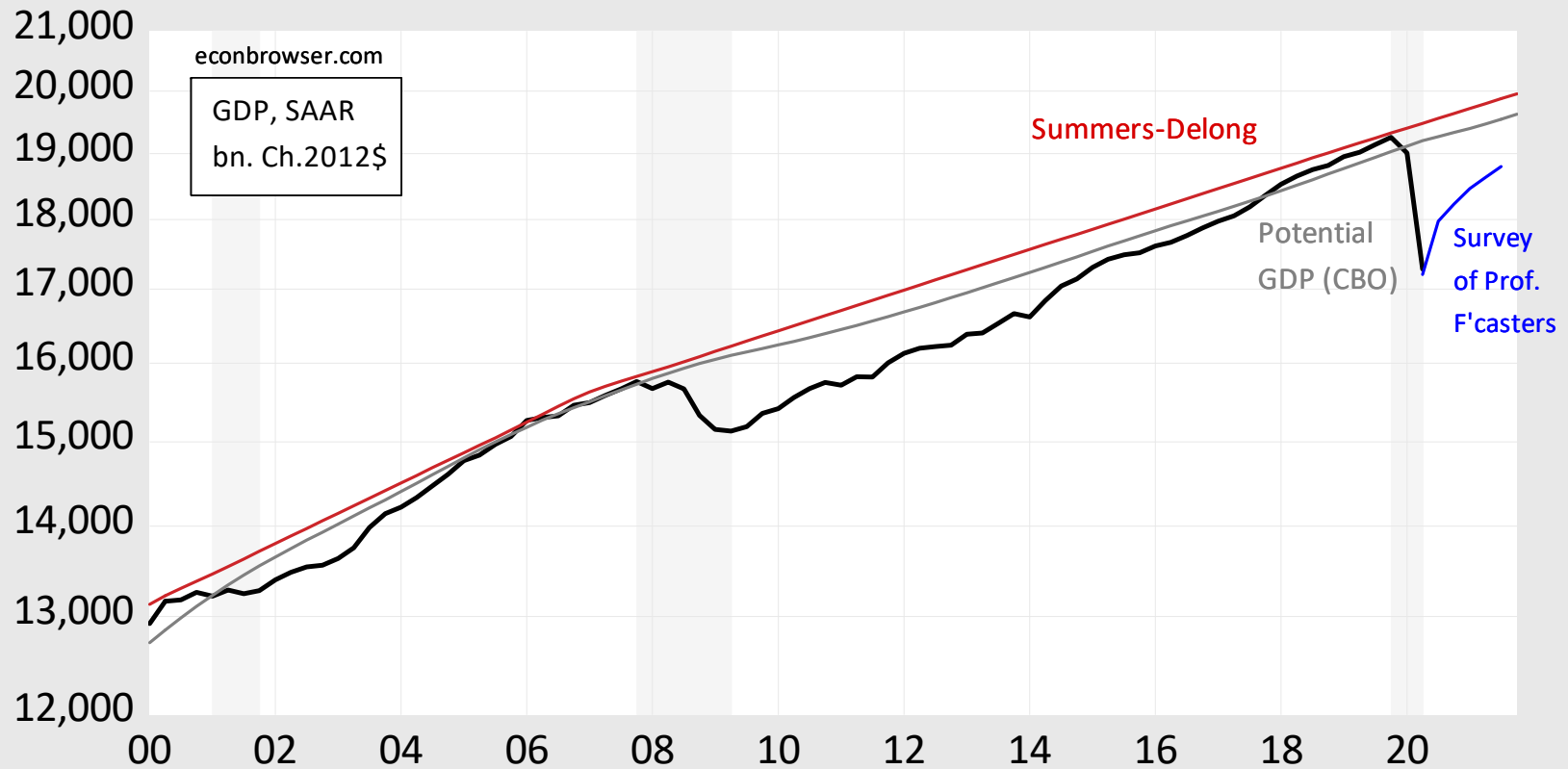
Source: Federal Reserve Bank of Cleveland calculations based on data from Federal Reserve Board and Haver Analytics.

Unconventional Monetary Policy (II)

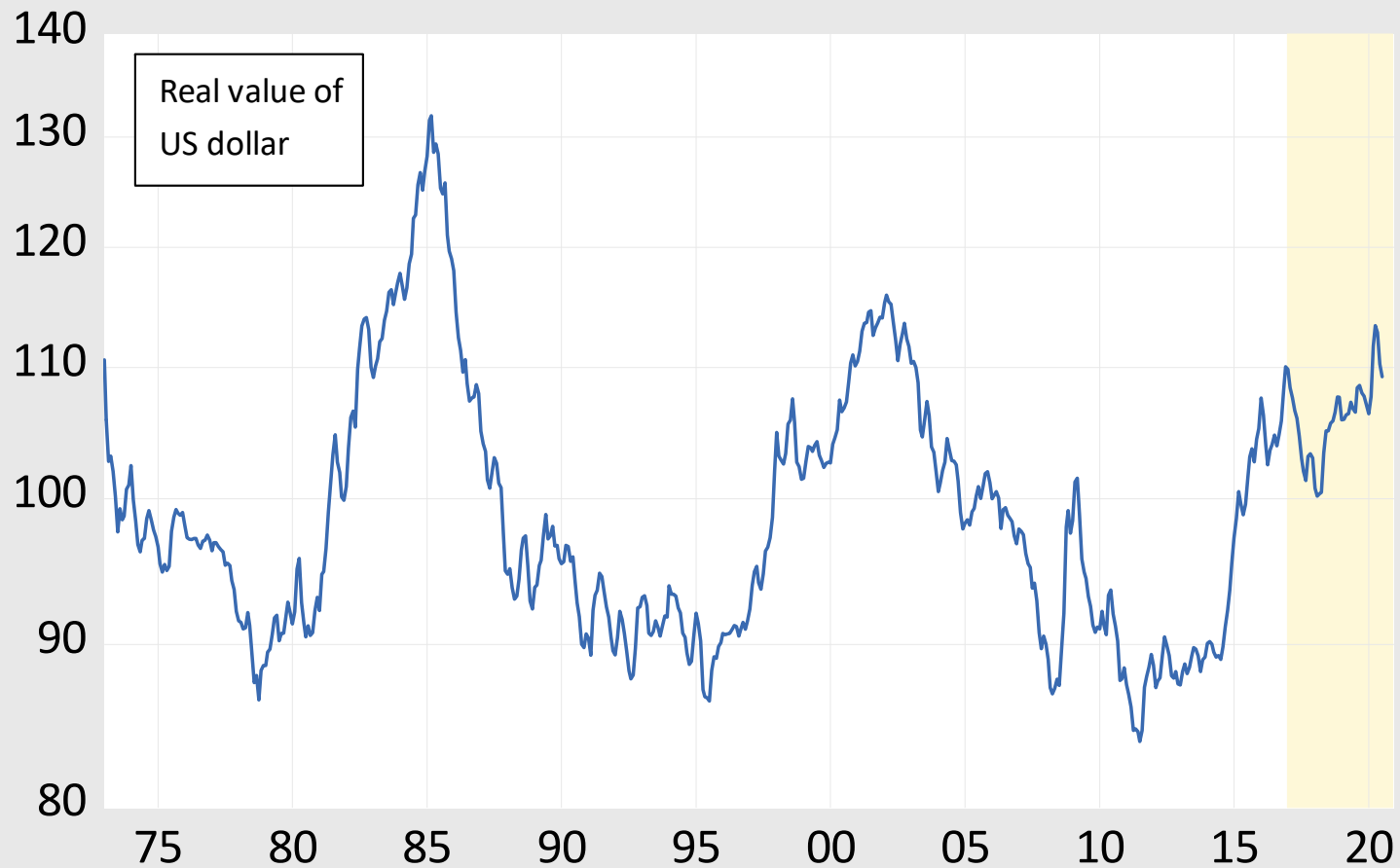
a.k.a Forward Guidance



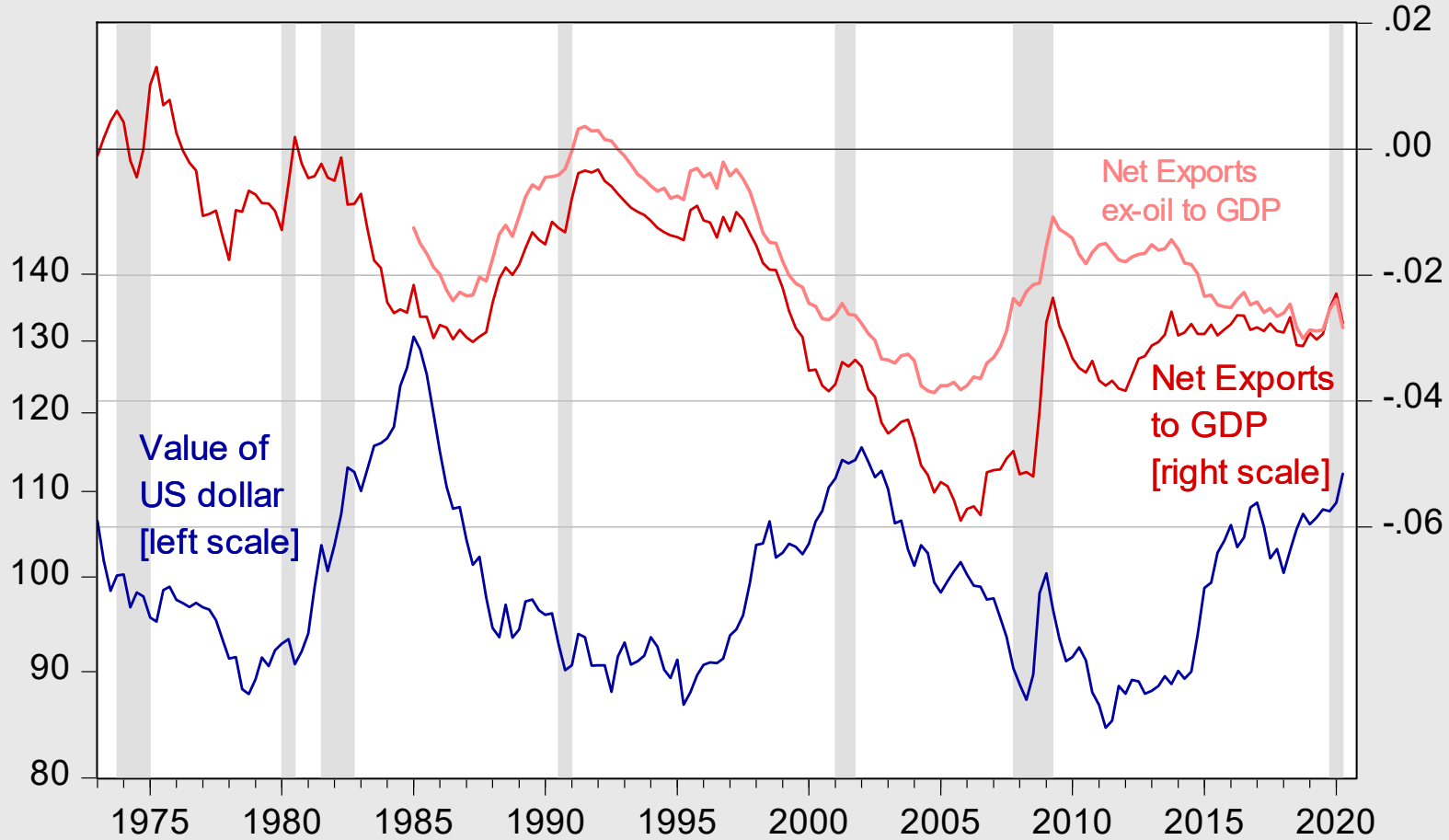
The New Monetary Framework



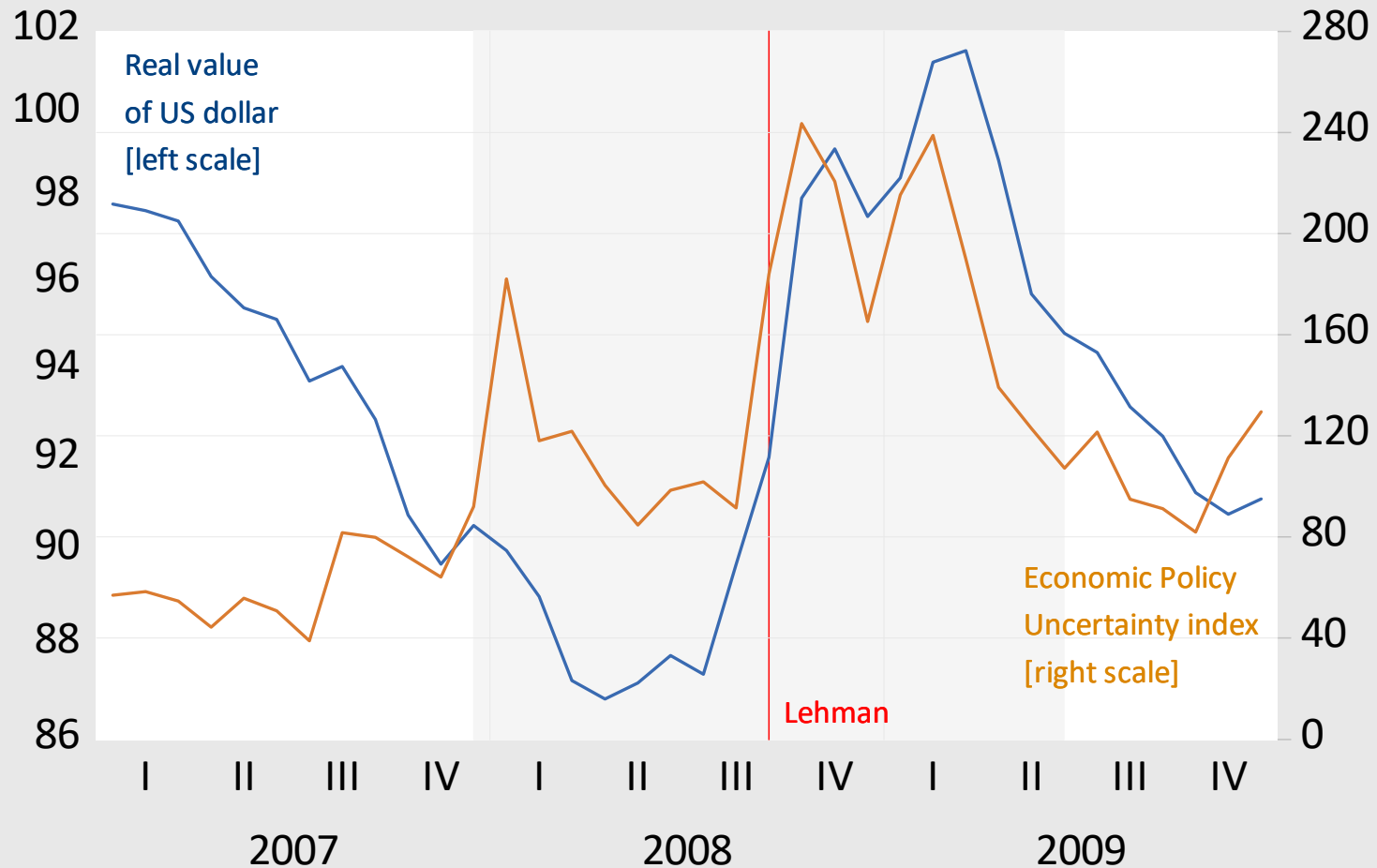
The Dollar's Rise in Perspective



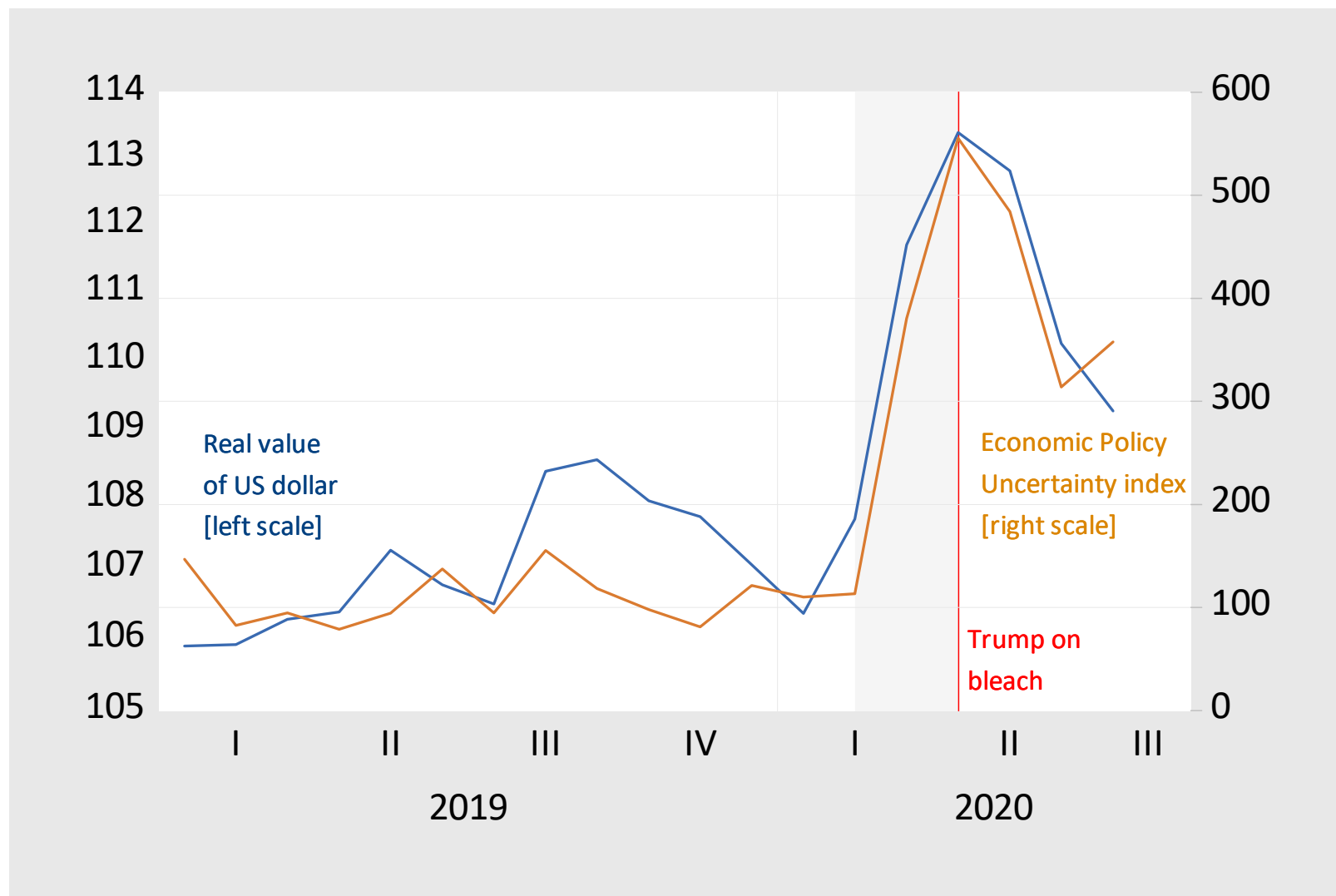
The Dollar and Net Exports



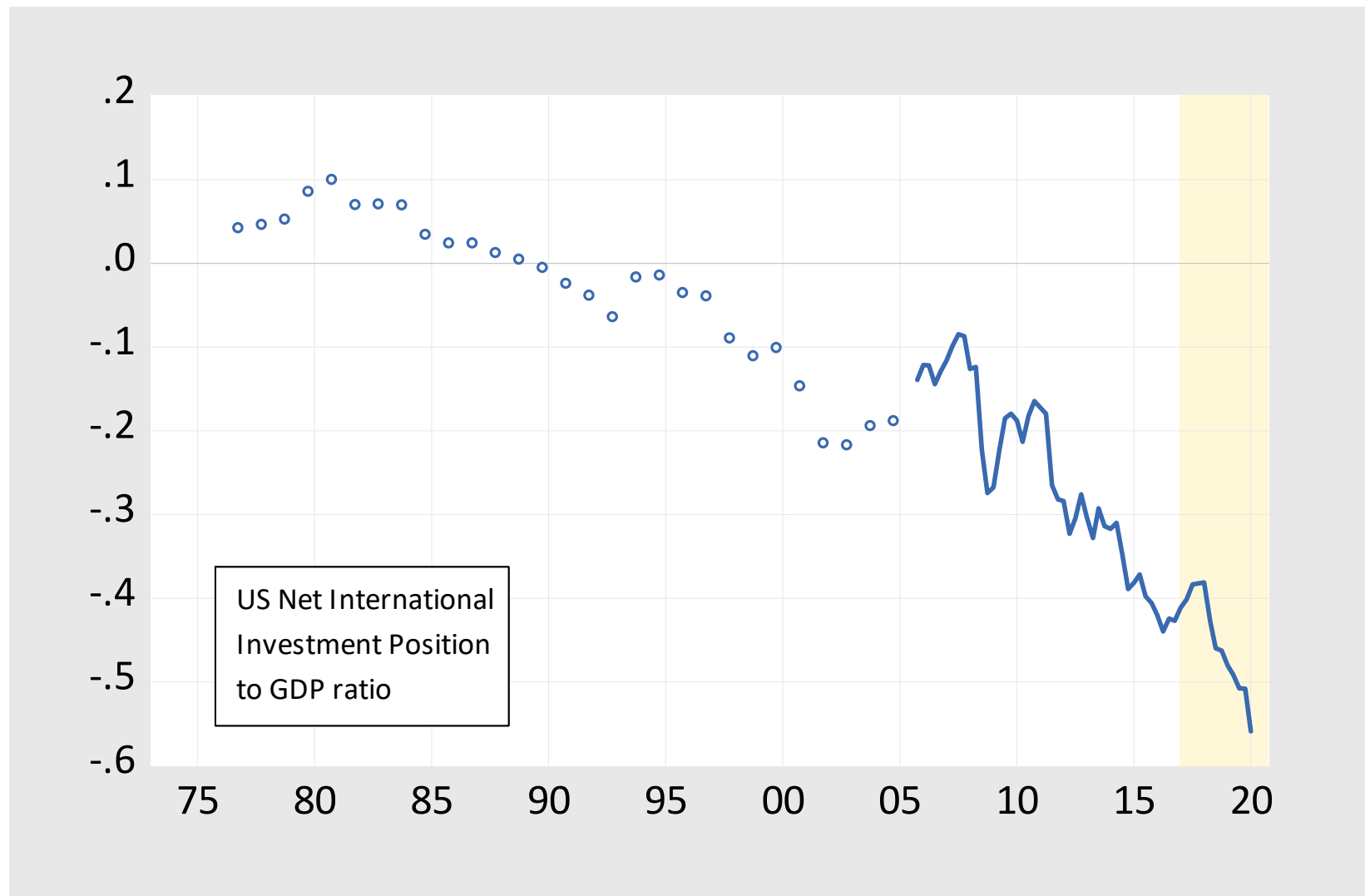
Dollar As Safe-Haven



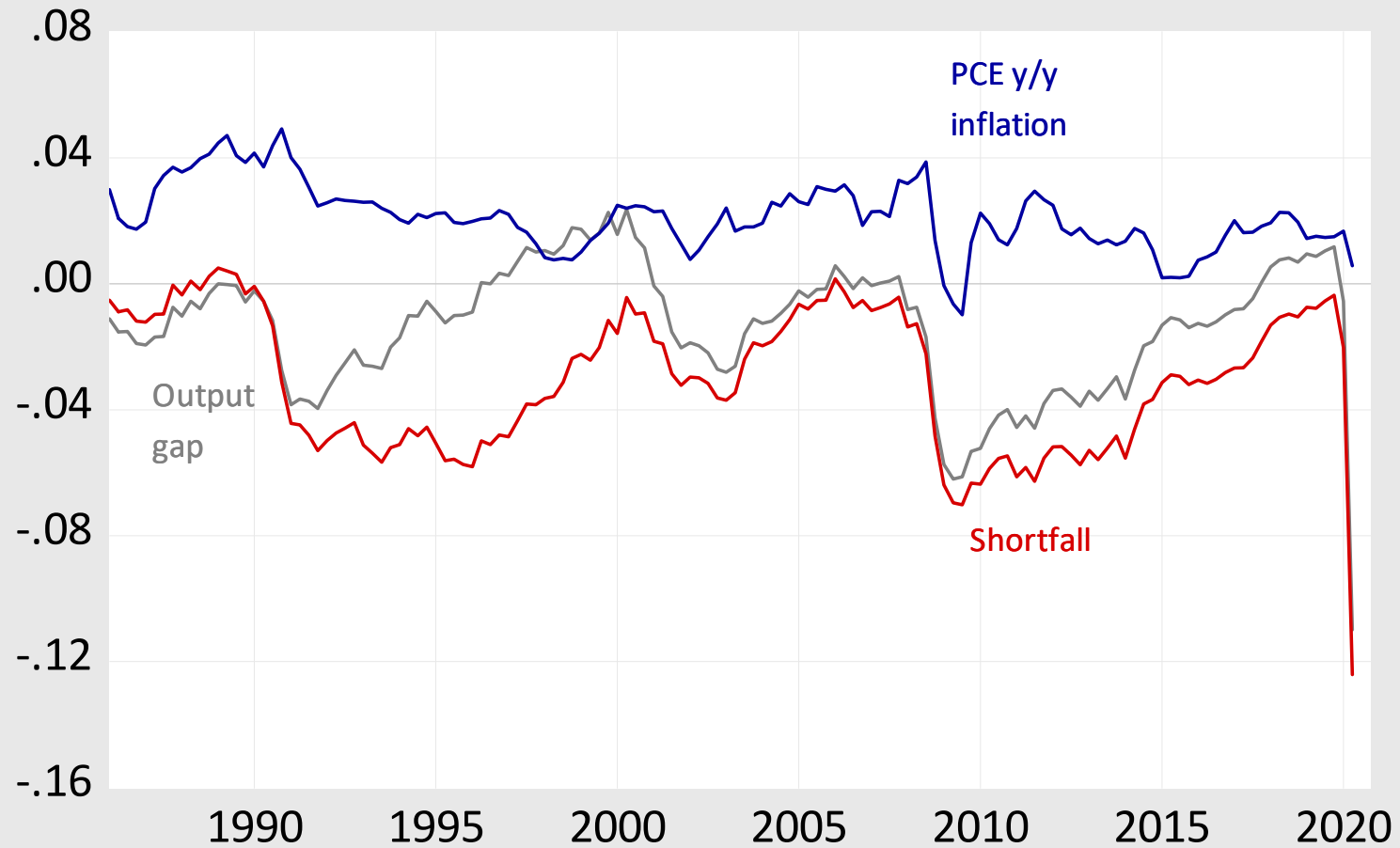
Dollar As Safe-Haven



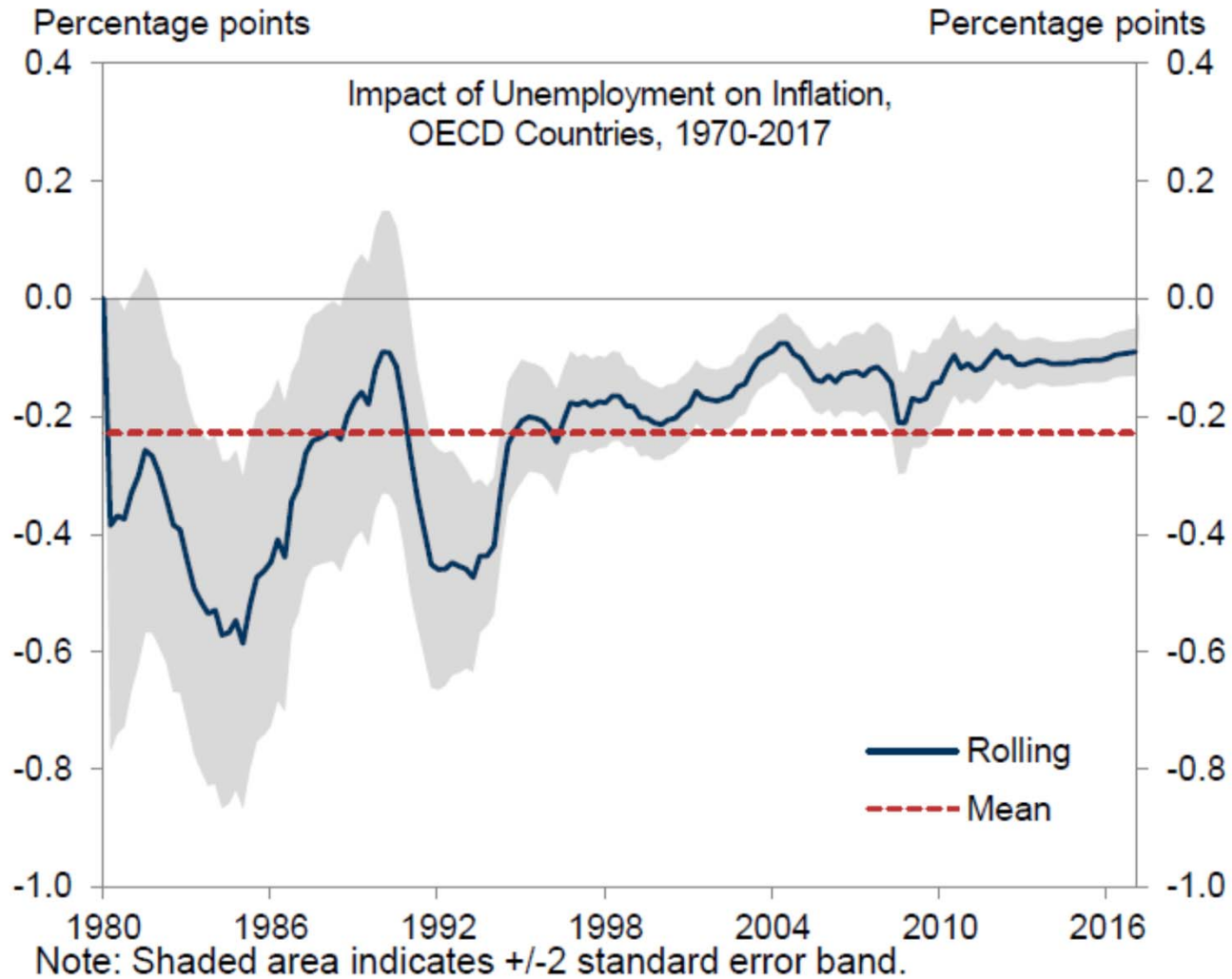
So Maybe Growing US Indebtedness Can Continue



Is the Phillips Curve Dead?



Phillips Curve



Source: Goldman Sachs Global Investment Research, Department of Labor, Federal Reserve Board

Which Measure Is the Right One?

