

Public Affairs 974-1
Monetary and Financial Policy in
the Wake of the Financial Crisis
(9/6/12)

Instructor: Prof. Menzie Chinn
UW Madison
Fall 2012

Administrative Issues

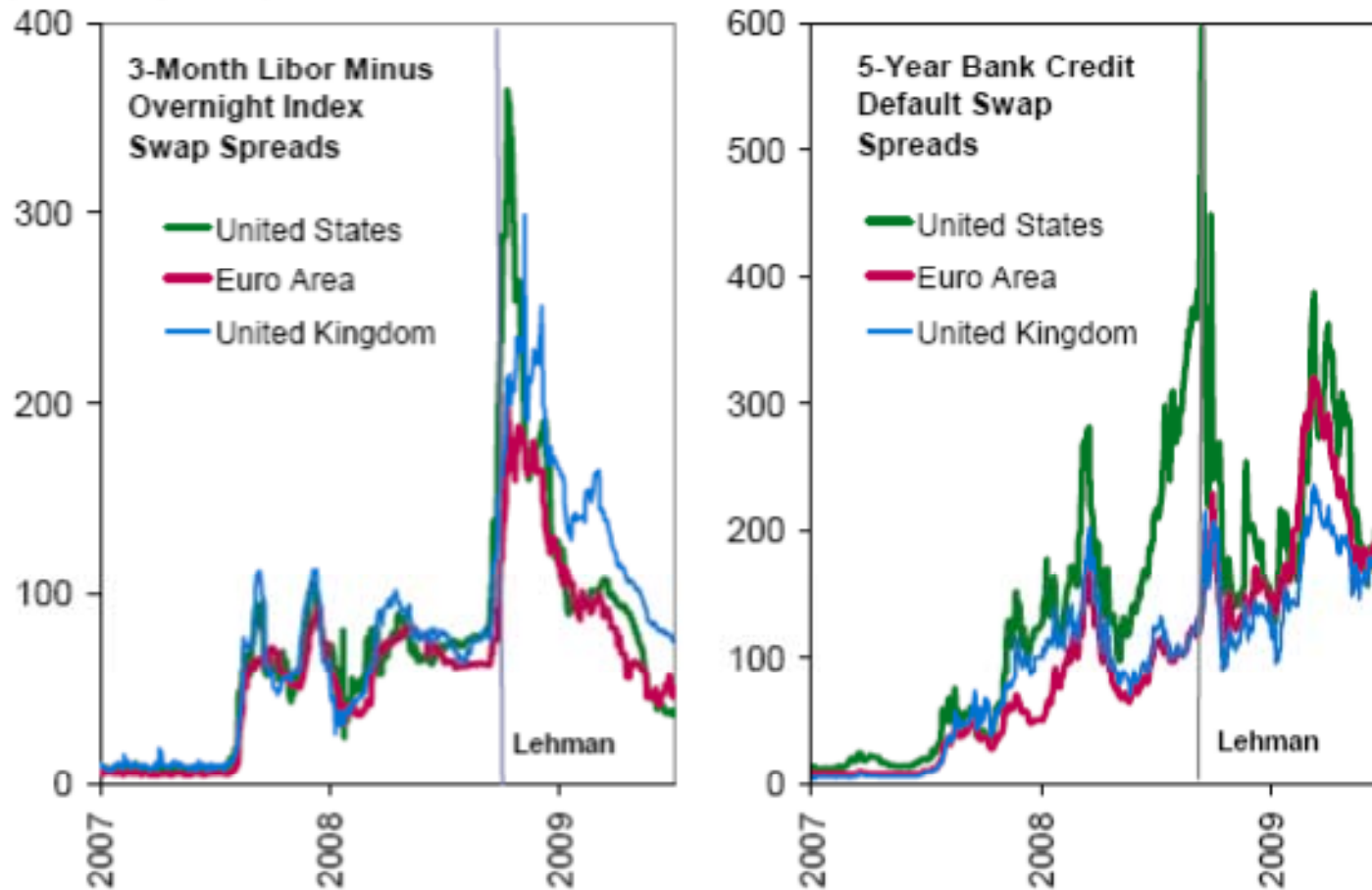
- Course website:
http://www.ssc.wisc.edu/~mchinn/web974_f12.html
- OH: T2:30-3:30, R3-4, 7418 Soc Sci
- Textbook: Chinn/Frieden, *Lost Decades*
- Cecchetti/Schoenholtz
- Additional Readings: from web, Econbrowser, CBO
- *NYT, FT, WSJ, Economist*

Administrative Issues

- Grading: 20% PS, 80% paper
- Dates:
 - Paper due on **Fri, 12/14**
- Make-ups: **None**. Points are re-allocated *if* you have a legitimate excuse. **No** late assignments accepted (must be handed in during lecture)

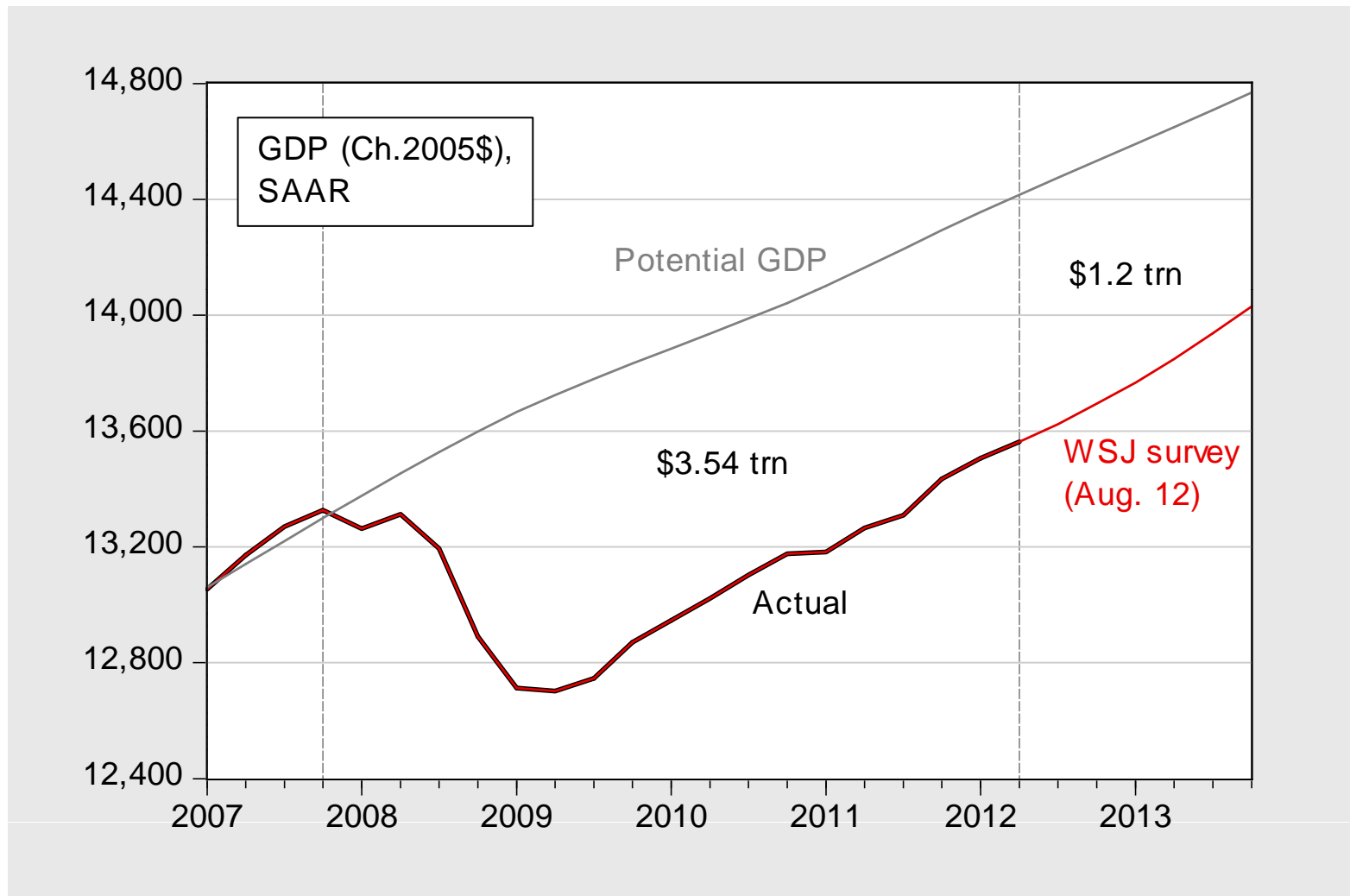
Risk and Crisis

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



Sources: Bloomberg L.P.; and Datastream.

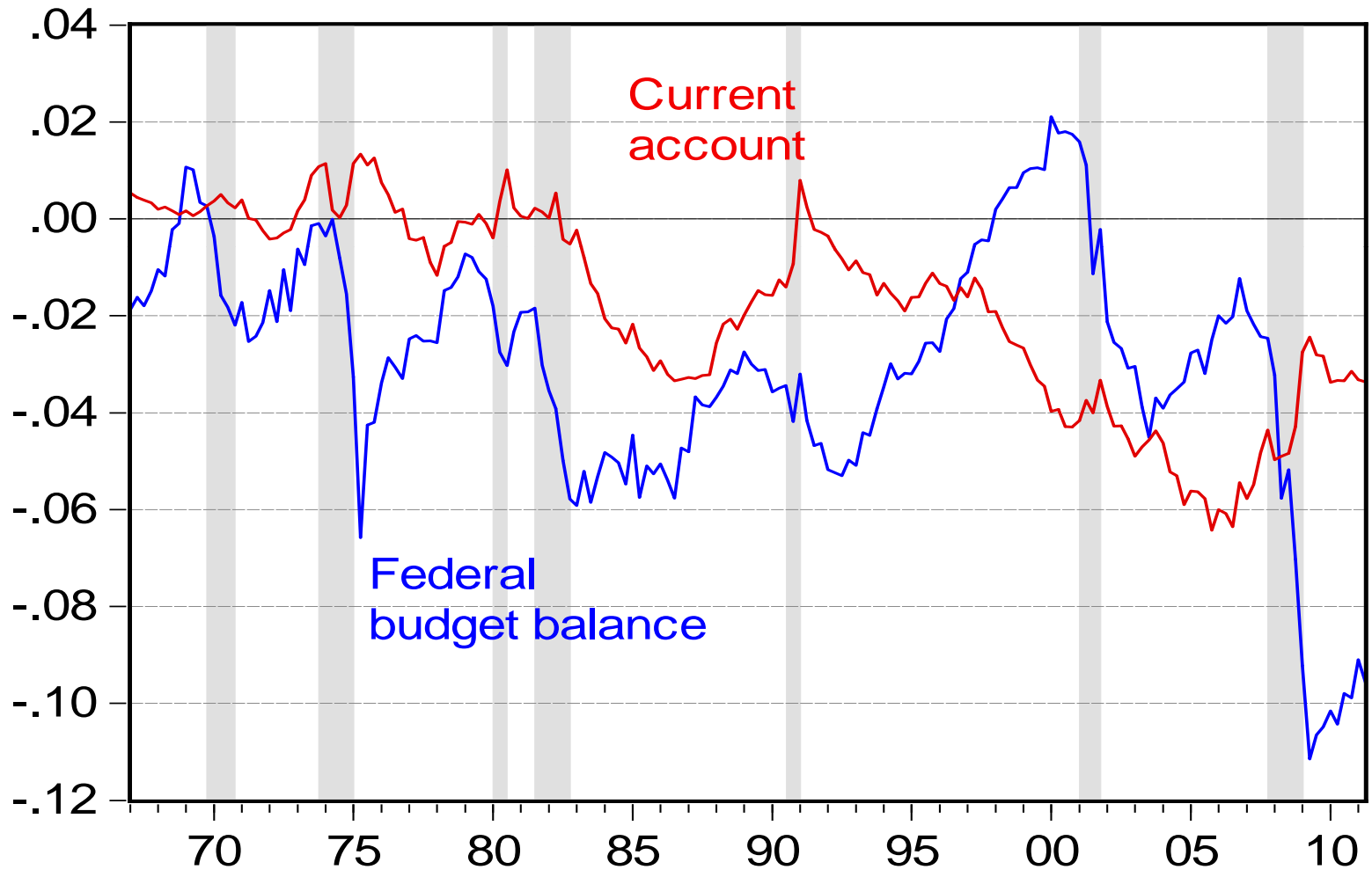
Leading to Recession/Depression



Motivating Questions

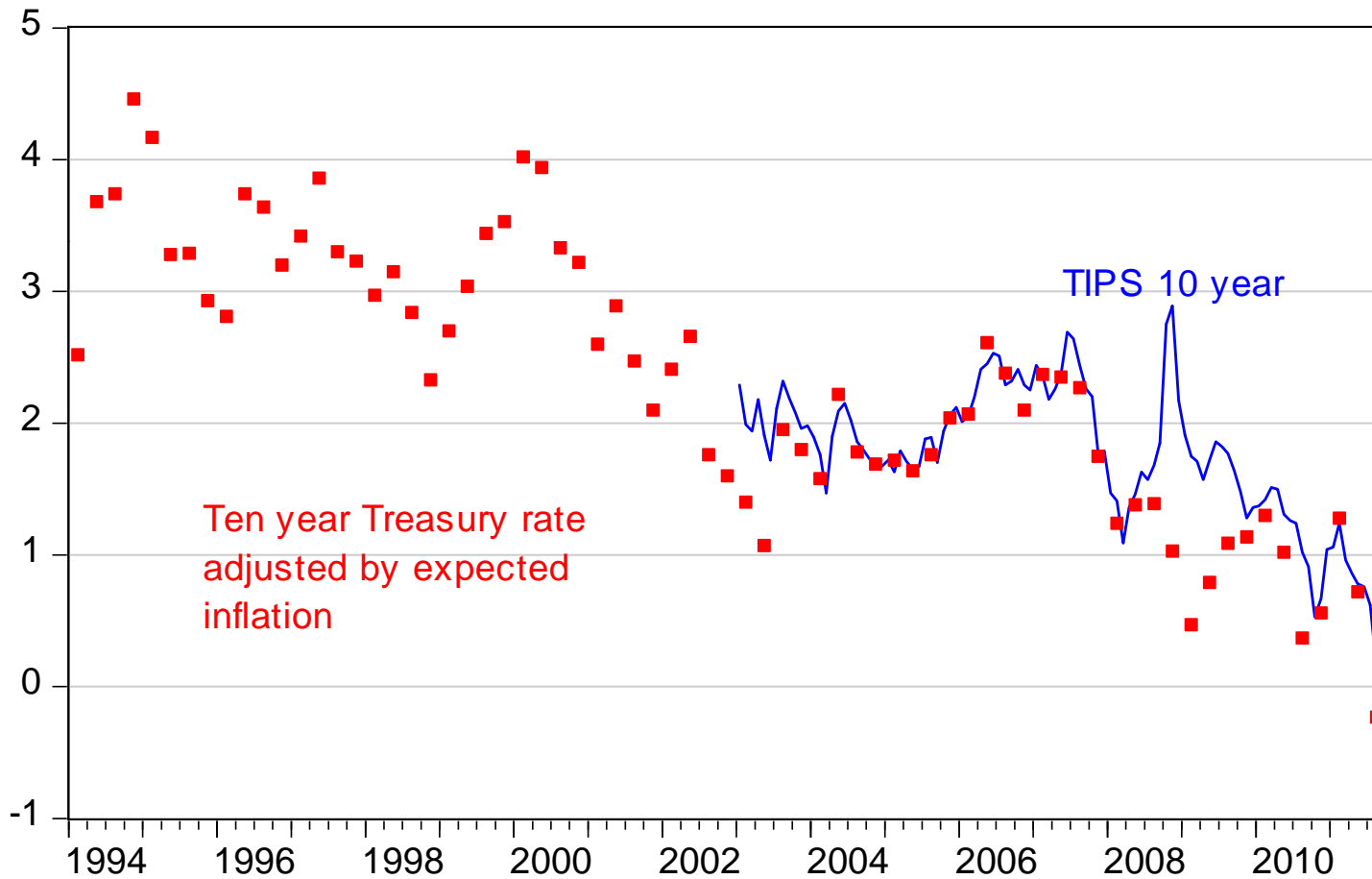
- Why did the financial crisis occur?
- Was it all financial?
- How did financial problems get transmitted to the real side?
- What are the similarities and differences between the past episodes (e.g., the 1929 crash) and this crisis.

Government and national borrowing



Note: Fed. Budget balance is net lending. Source: BEA

Real interest rates

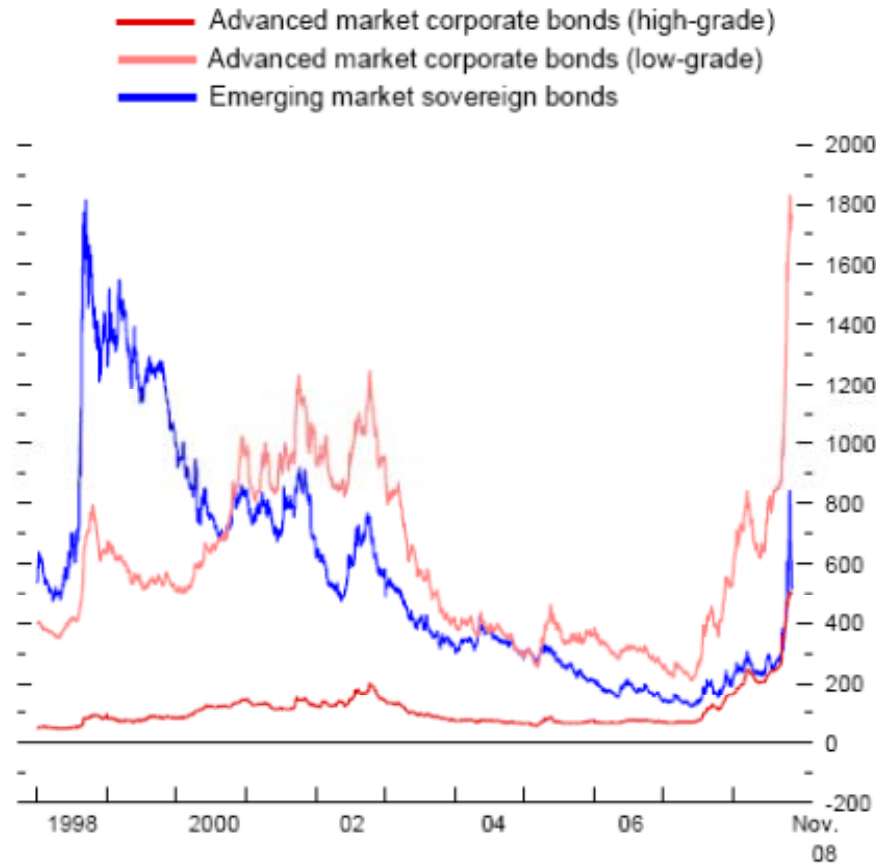


Source: Federal Reserve Board, Philadelphia Fed *SPF*

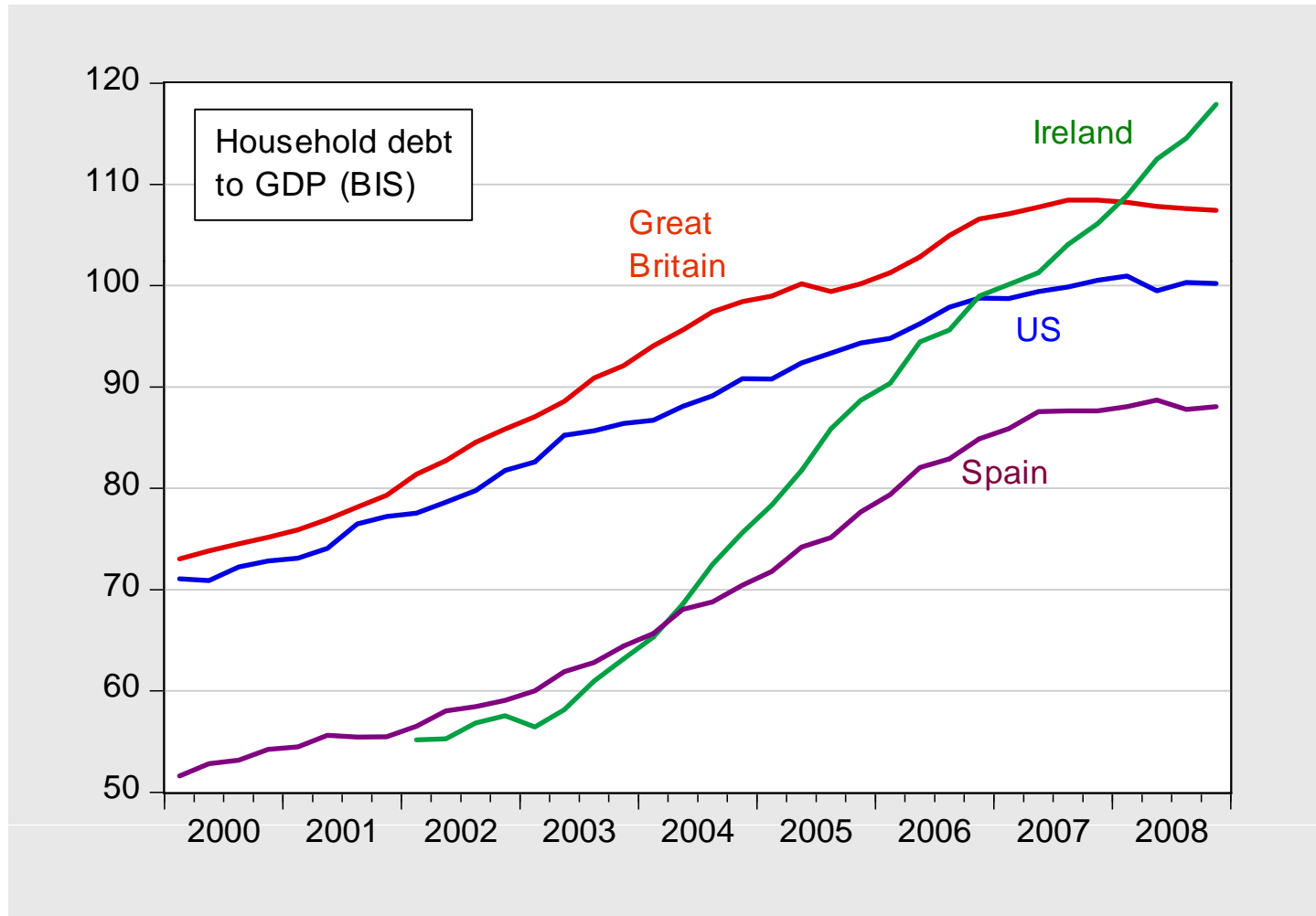
The “Disappearance” of Risk

Figure 3. Advanced and Emerging Markets: Sovereign and Corporate Bond Spreads, 1998–2008 ¹
(In basis points)

Source: IMF, *WEO* update,
11/6/08

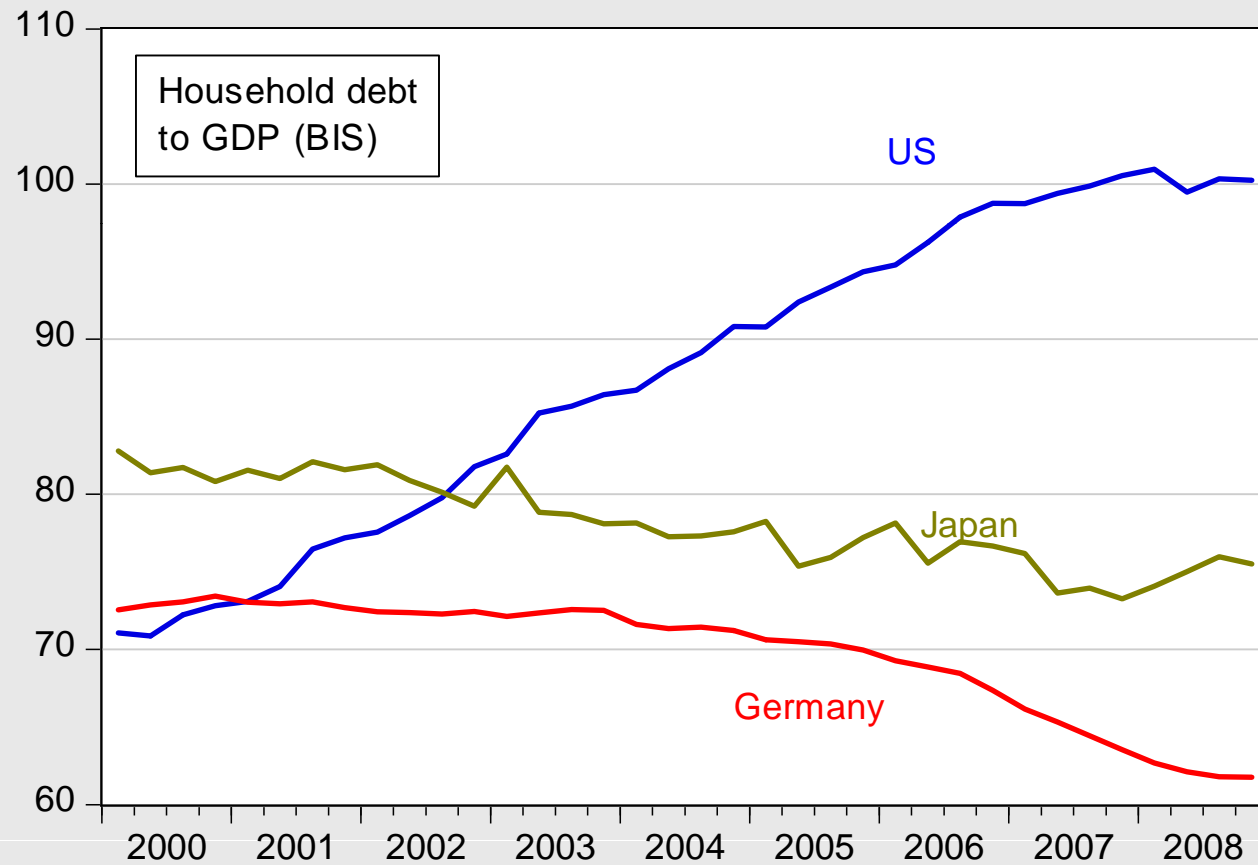


Household debt (I)



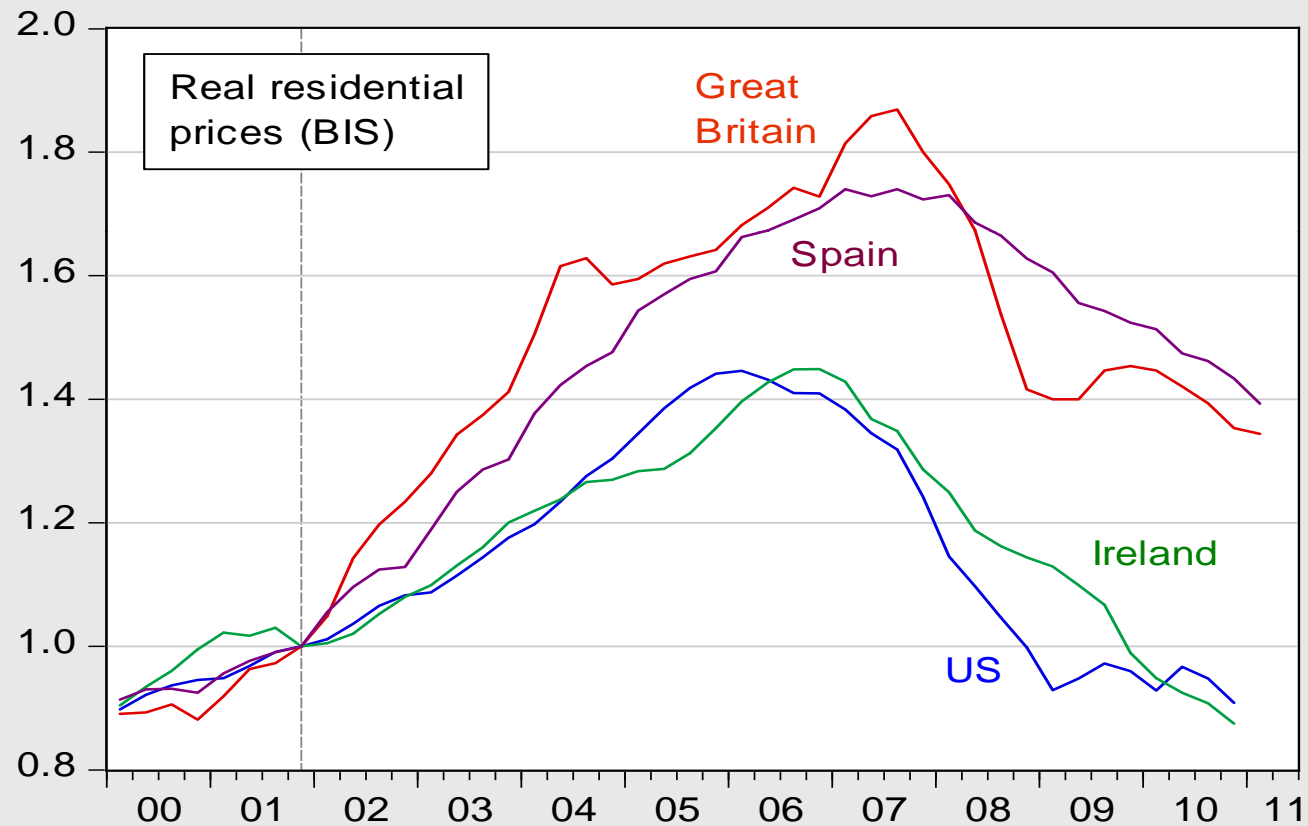
Source: BIS, *Annual Report* (2011)

Household debt (II)



Source: BIS, *Annual Report* (2011)

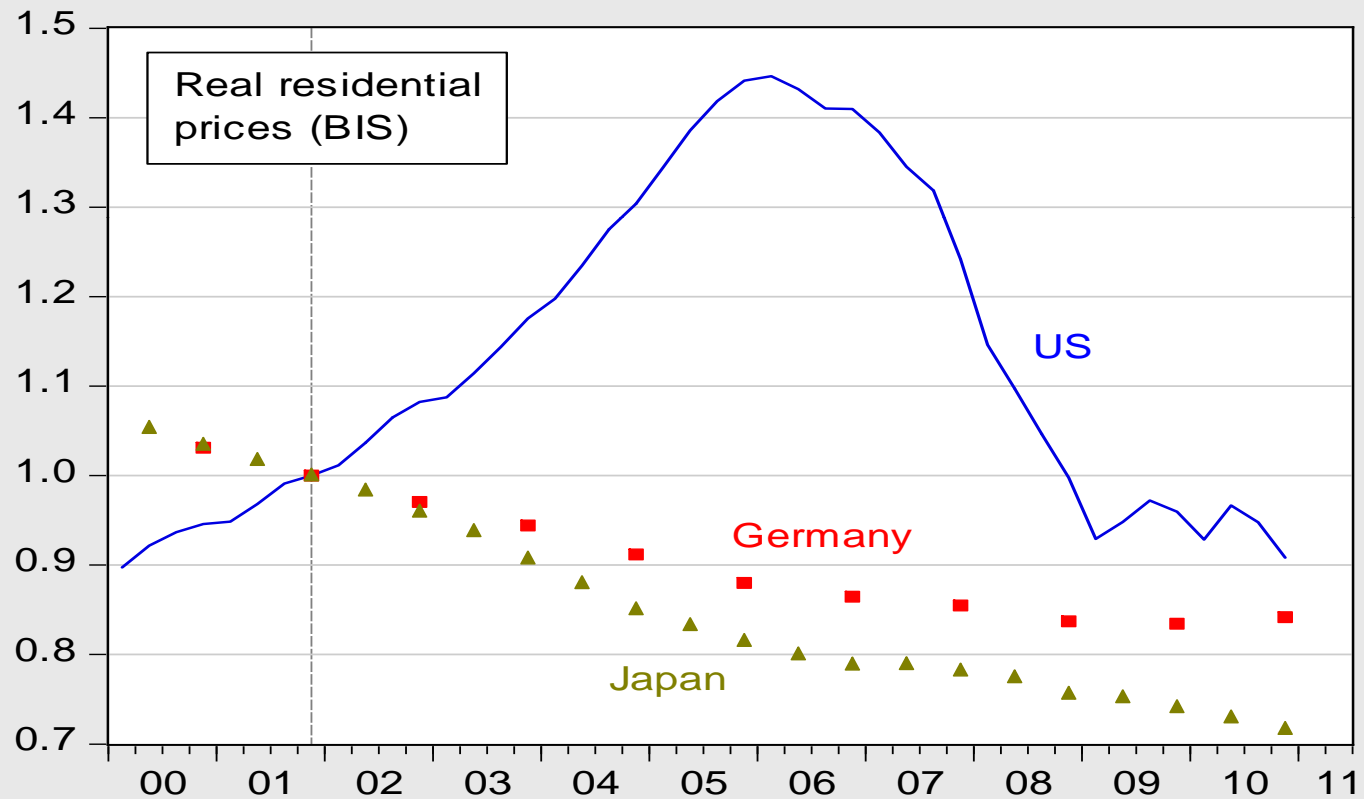
Housing boom (I)



Note: Rescaled to 2001Q4=1.

Source: BIS, Annual Report (2011)

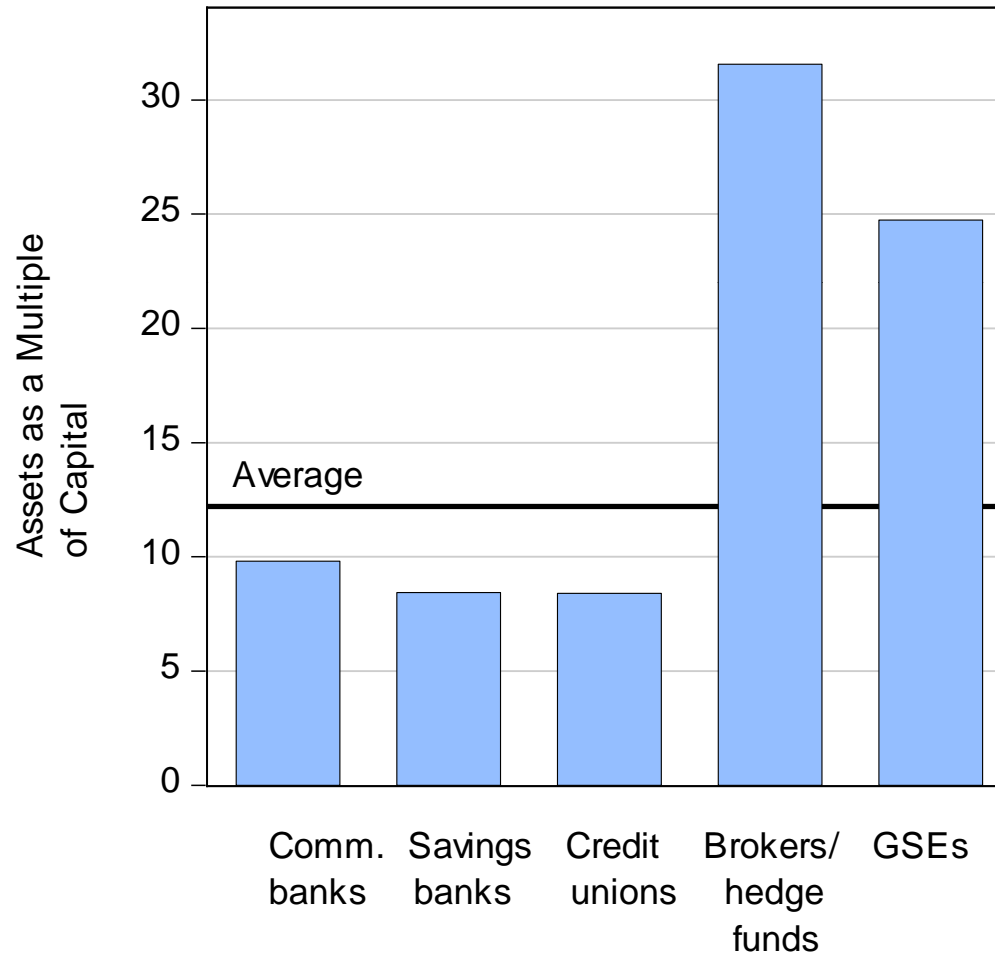
Housing boom (II)



Note: Rescaled to 2001Q4=1.

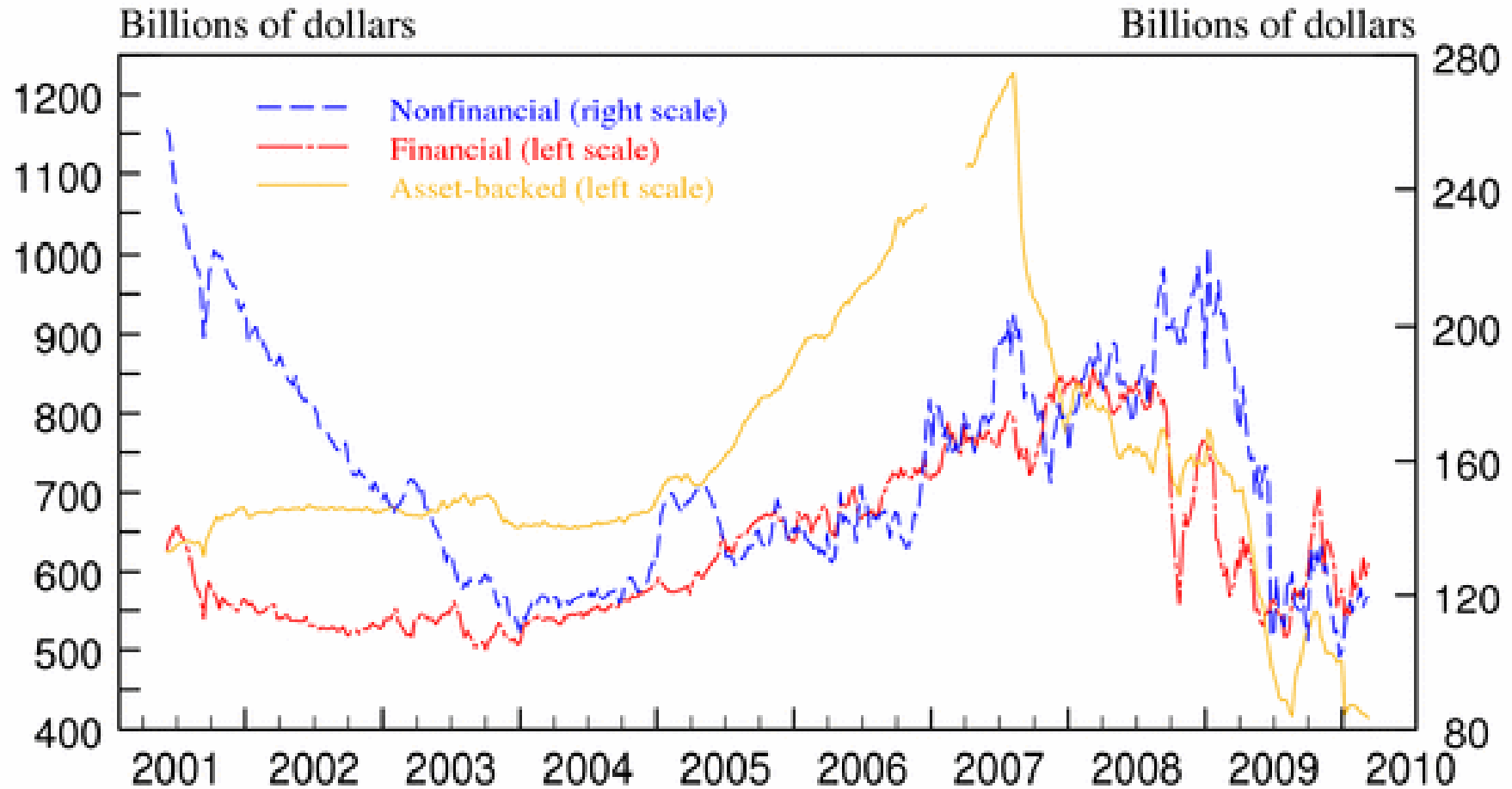
Source: BIS, Annual Report (2011)

Leverage (as of 2007)



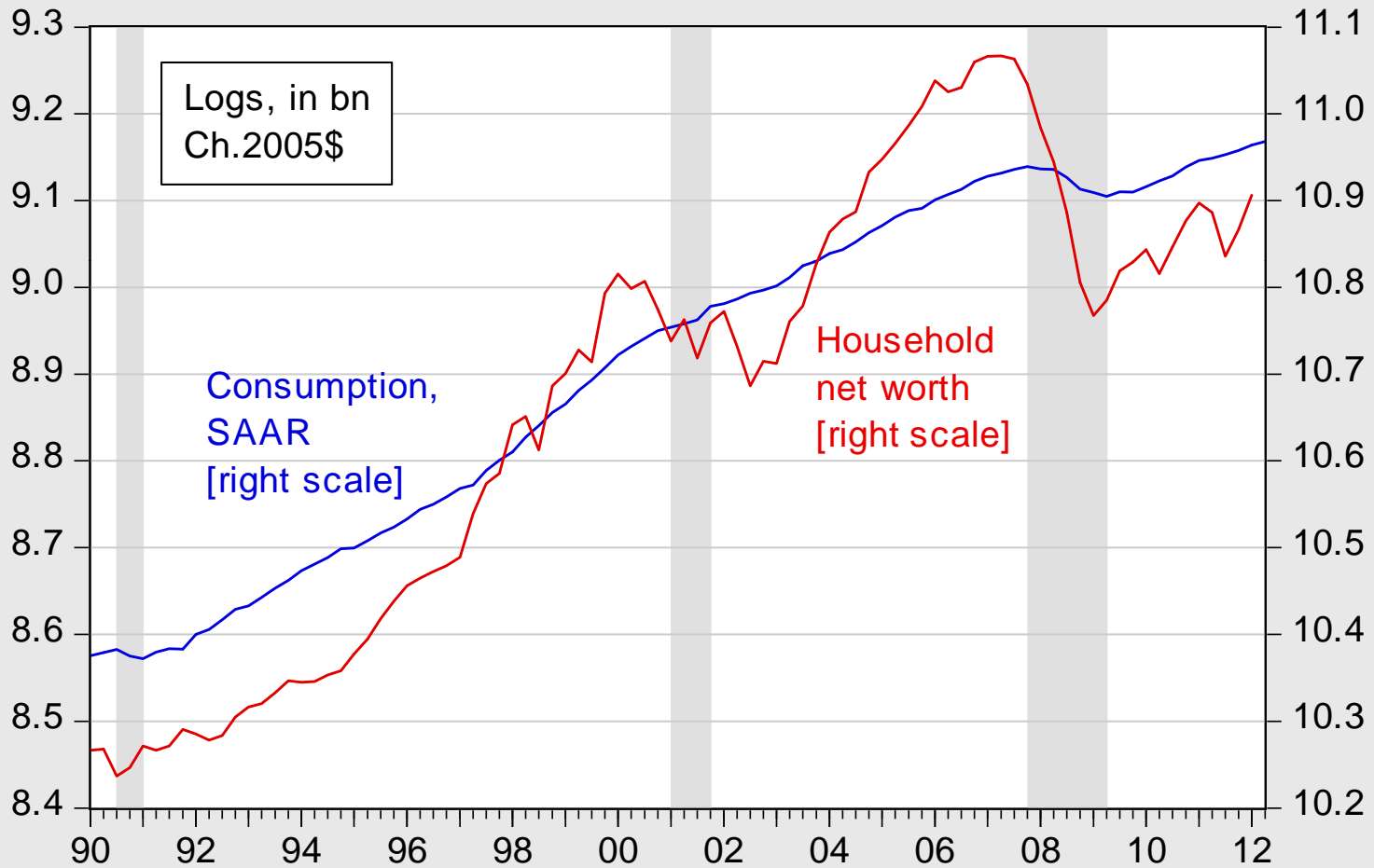
Source: Greenlaw, Hatzius, Kashyap, and Shin (2008)

Boom and Bust in the Shadow Financial System

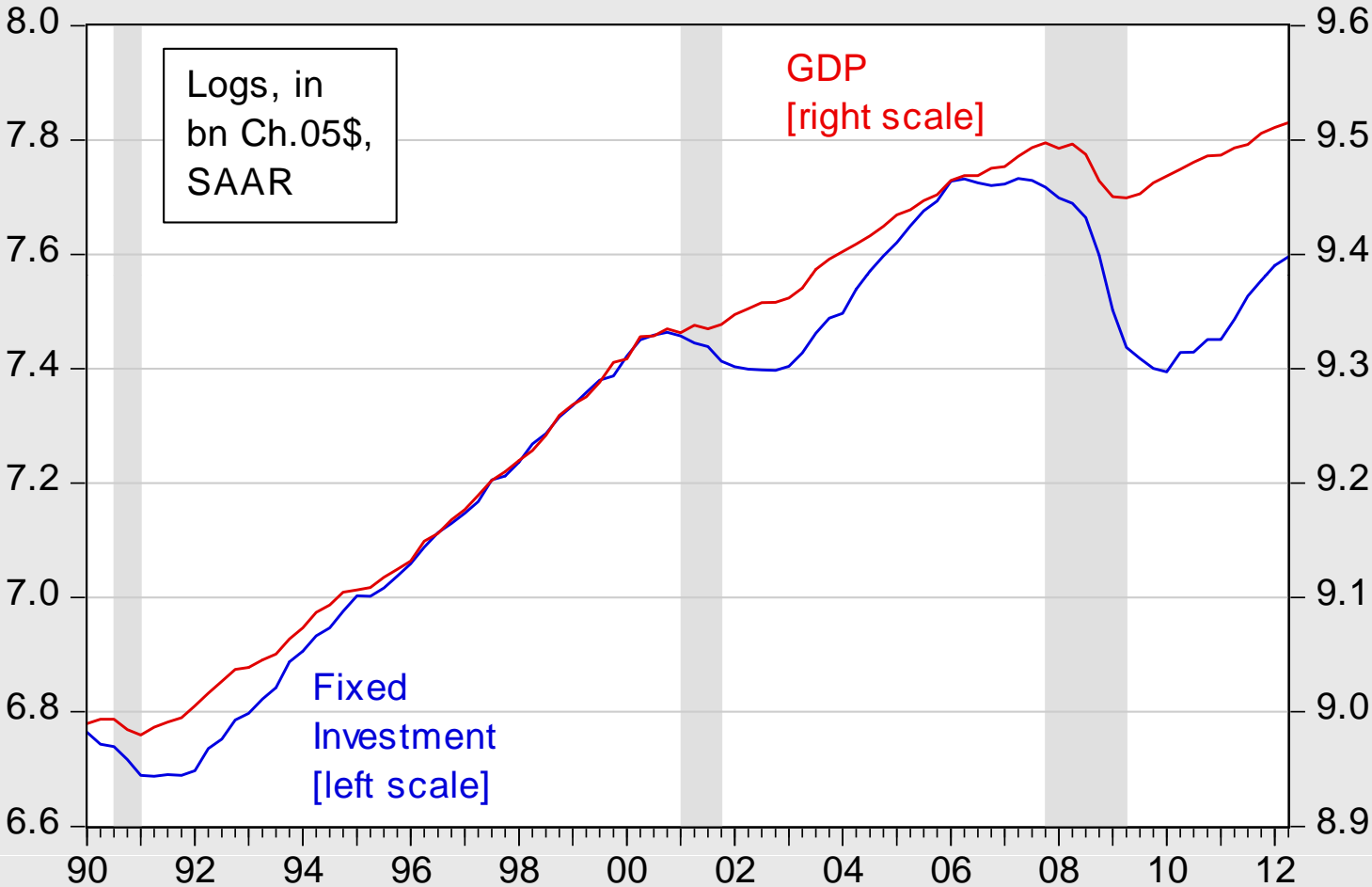


Source: Federal Reserve Board

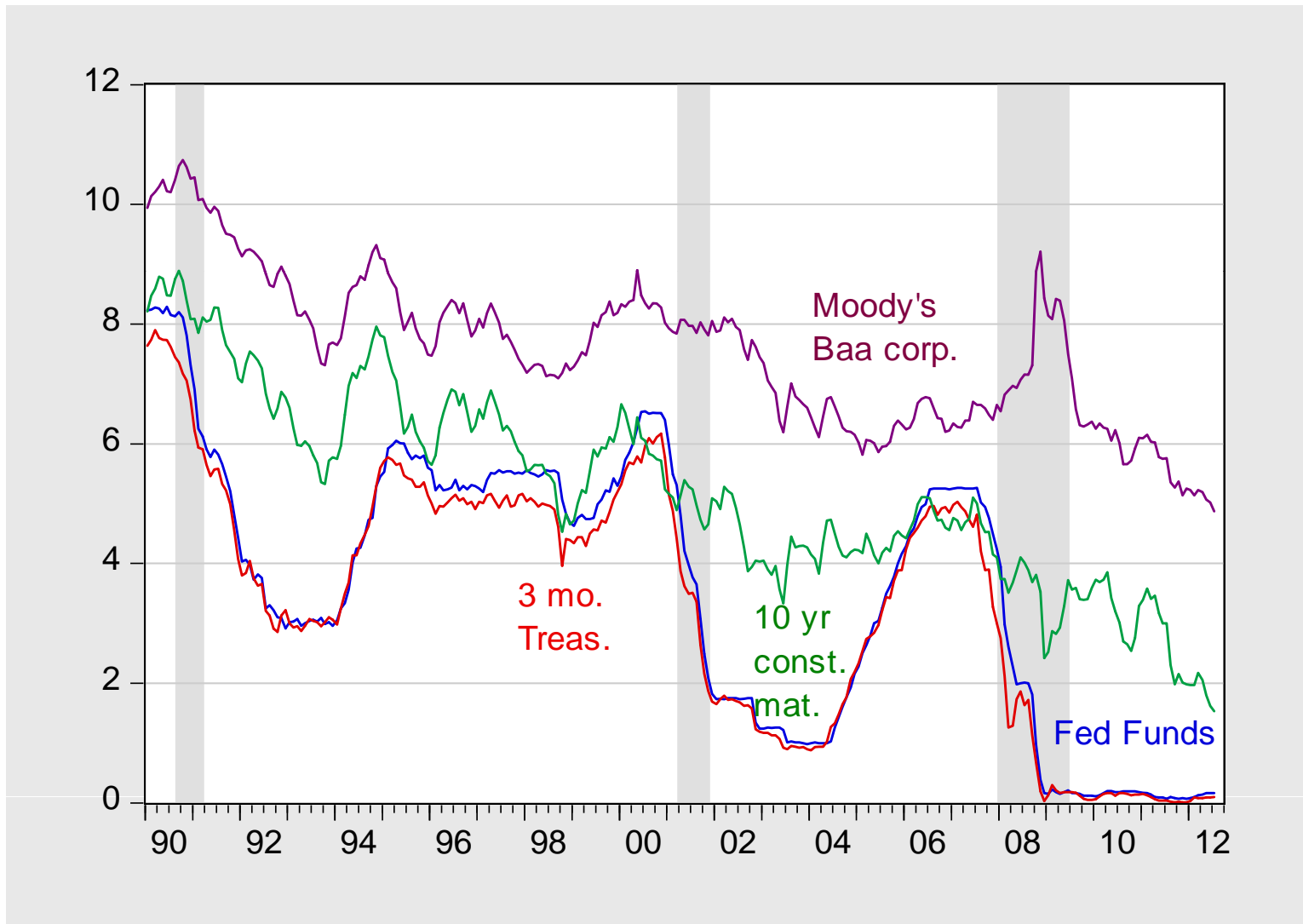
Consumption and Wealth



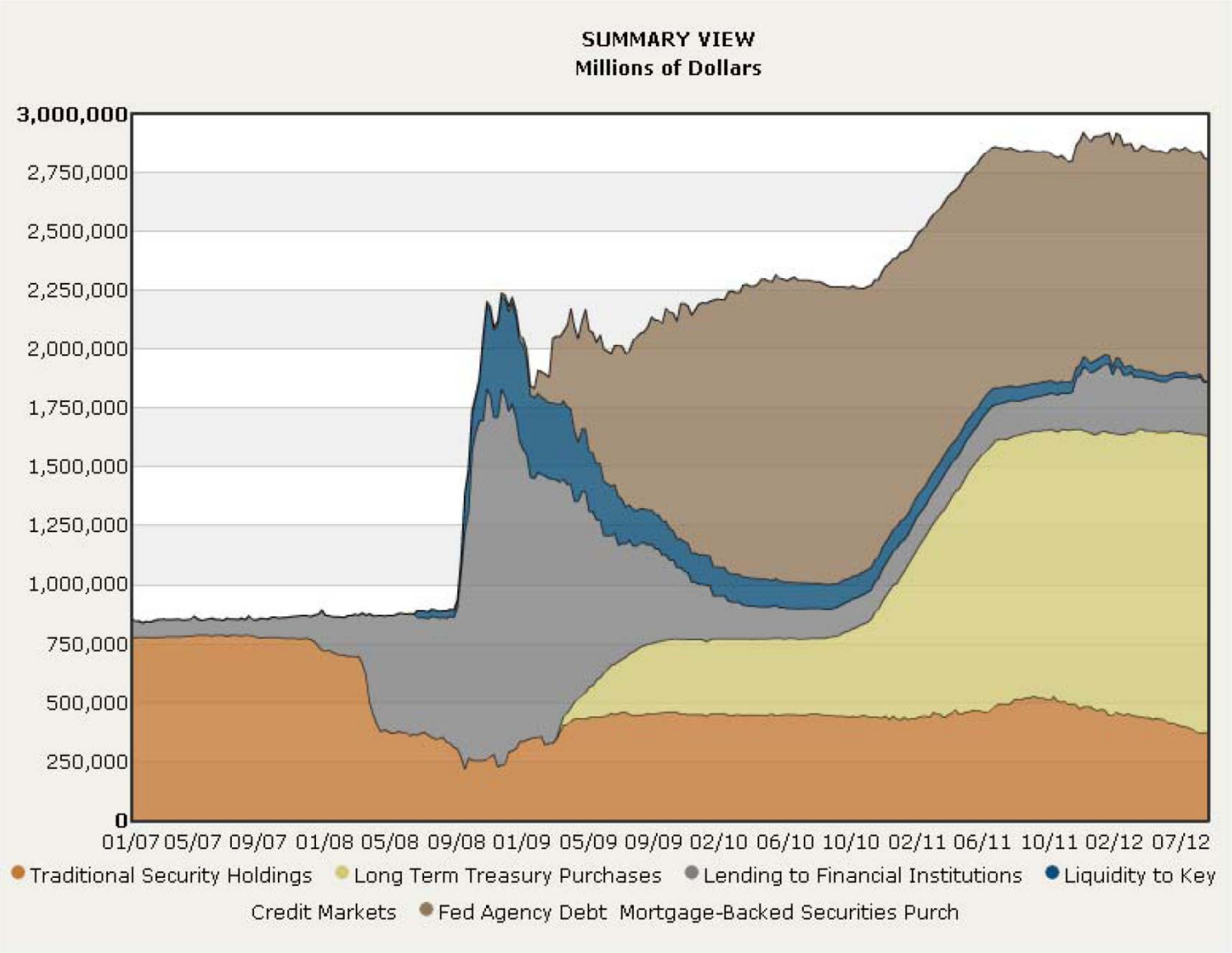
Investment



Conventional Monetary Policy

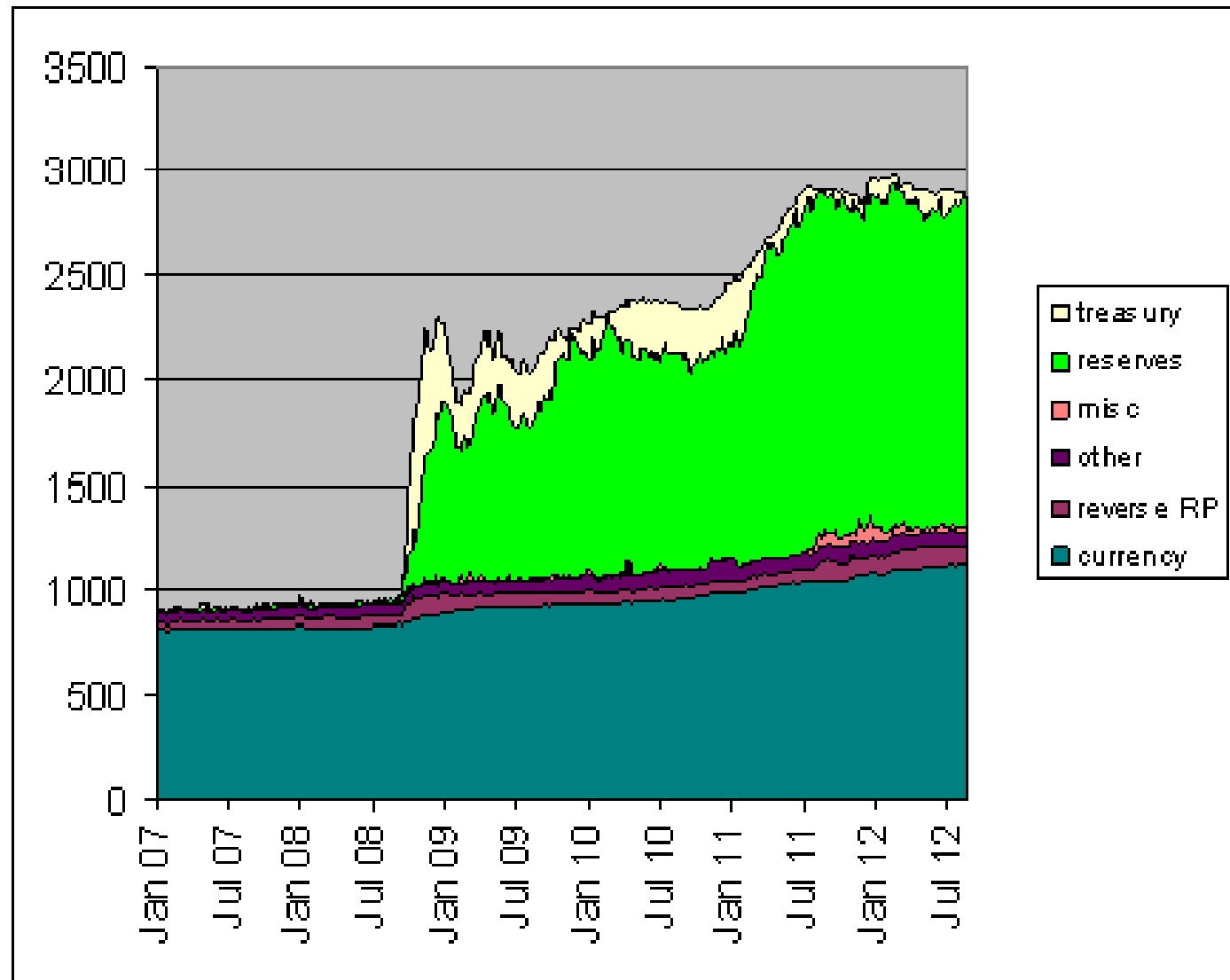


Quantitative Easing, Operation Twist



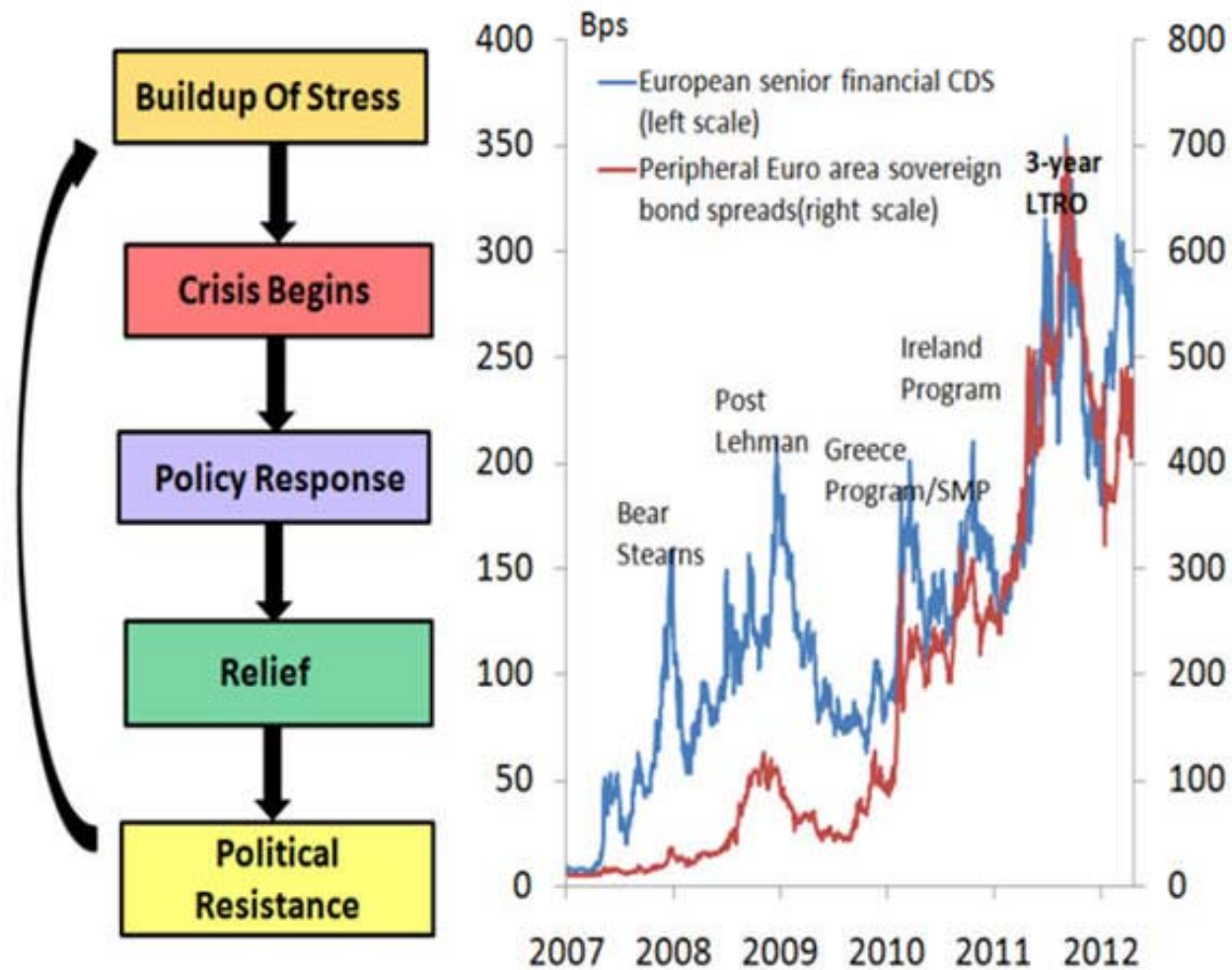
http://www.clevelandfed.org/research/data/credit_easing/index.cfm

The Other Side of the Fed Balance Sheet



Europe

Figure 1. The Escalating Cycle of Turmoil



Sources: Bloomberg L.P.; and IMF staff estimates.