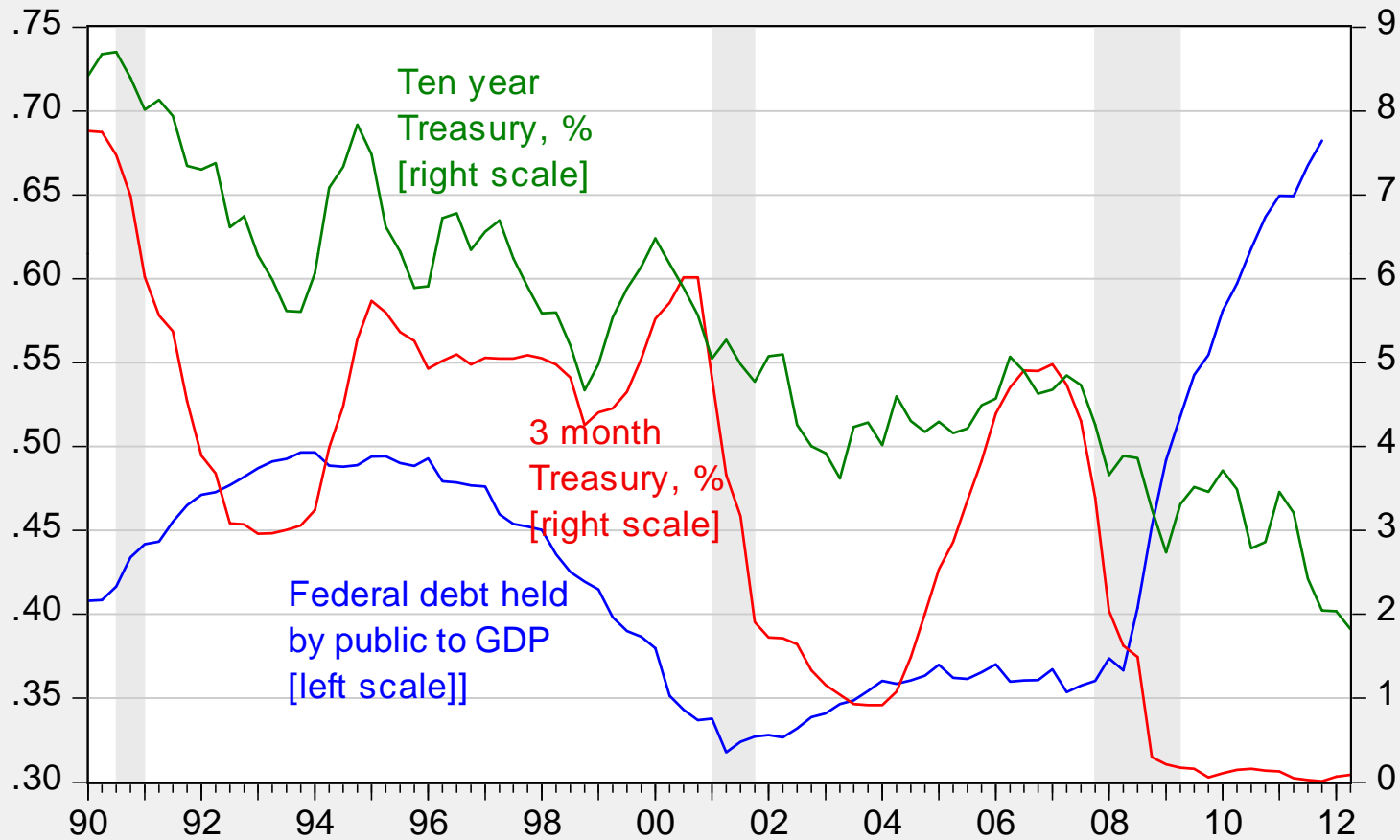


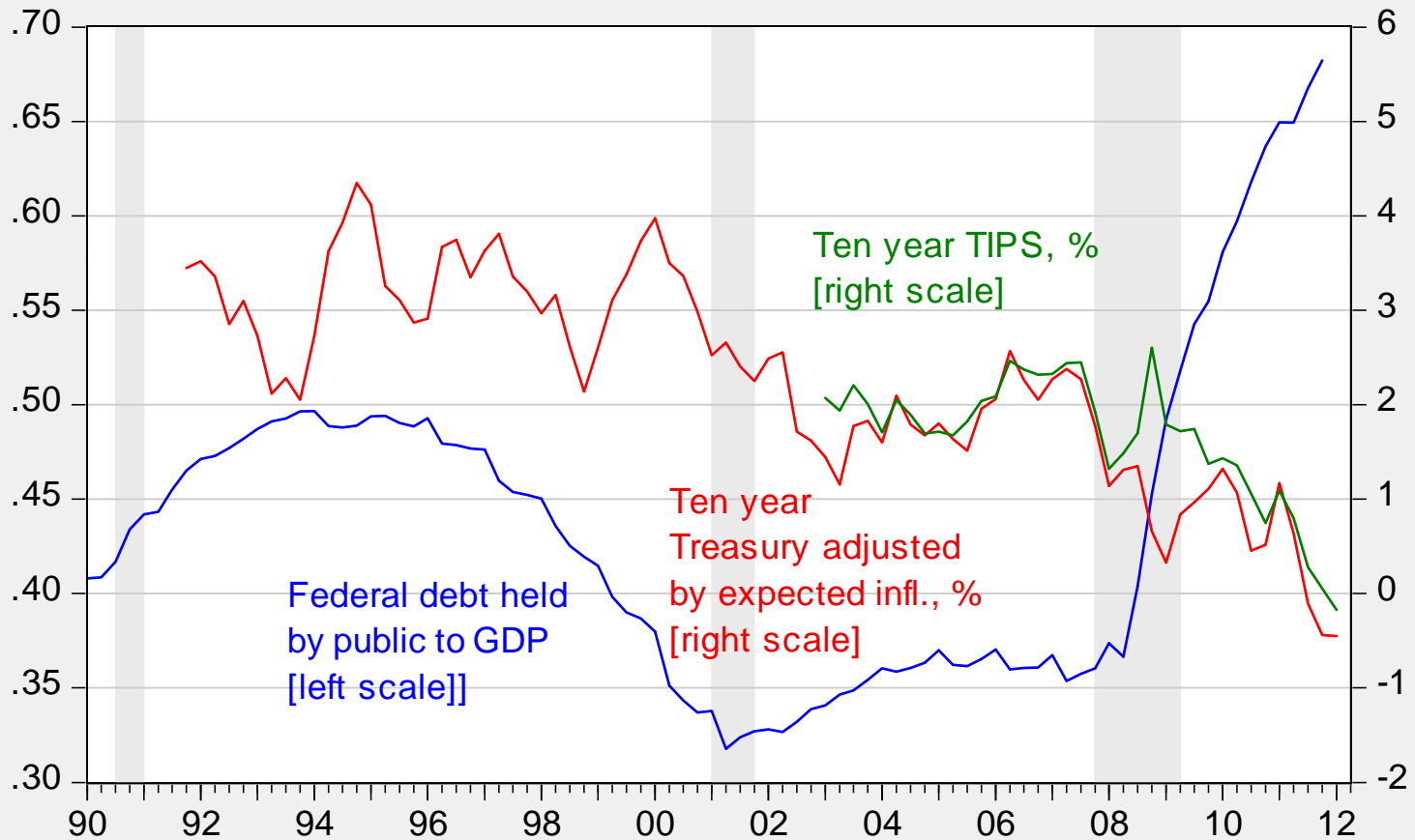
Public Affairs 974-1
Monetary and Financial Policy in
the Wake of the Financial Crisis
(9/27/12)

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UW Madison
Fall 2012

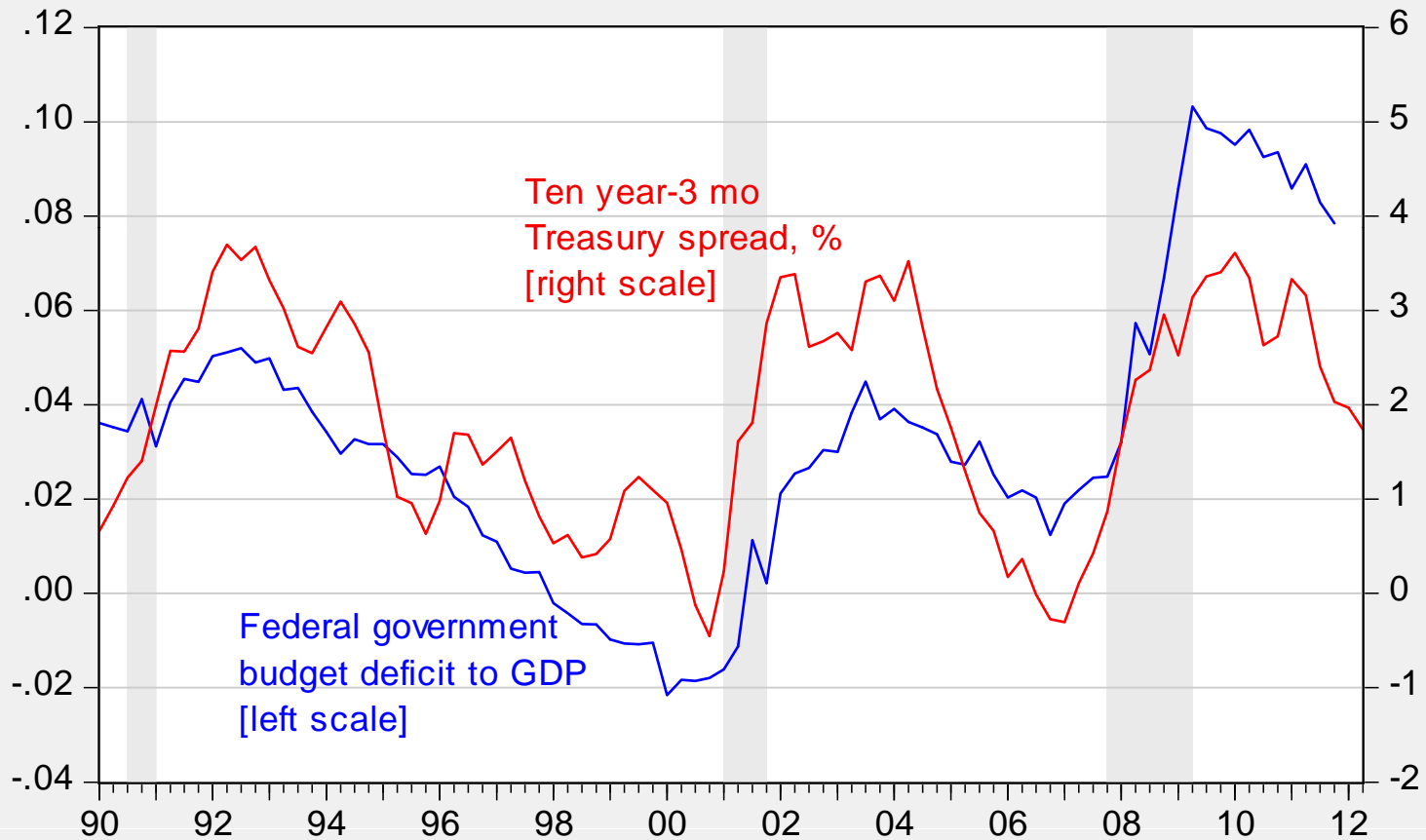
Debt and Interest Rates



Debt and Real Interest Rates



Crowding Out?



Econometric Analysis

$$\text{SPREAD}_t = \beta_0 + \beta_1 \text{UNGAP}_t + \beta_2 \text{INFL}_t + \beta_3 \text{STRSURP}_t + \beta_4 \text{FOROFFICIAL}_t + \beta_5 \text{FEDLT} + e_t$$

- SPREAD: 10 yr-3 mo Treasury
- UNGAP: unemployment gap
- INFL: inflation gap, PCE inflation – 1.8%
- STRSURP: structurally adjusted budget balance
- FOROFFICIAL: Official purchases of Treasuries
- FEDLT: Fed purchases of long term Treasuries

Estimates

Table 1

Regression Results for the Treasury Interest Rate Term Spread, 10-Year - 3 Month

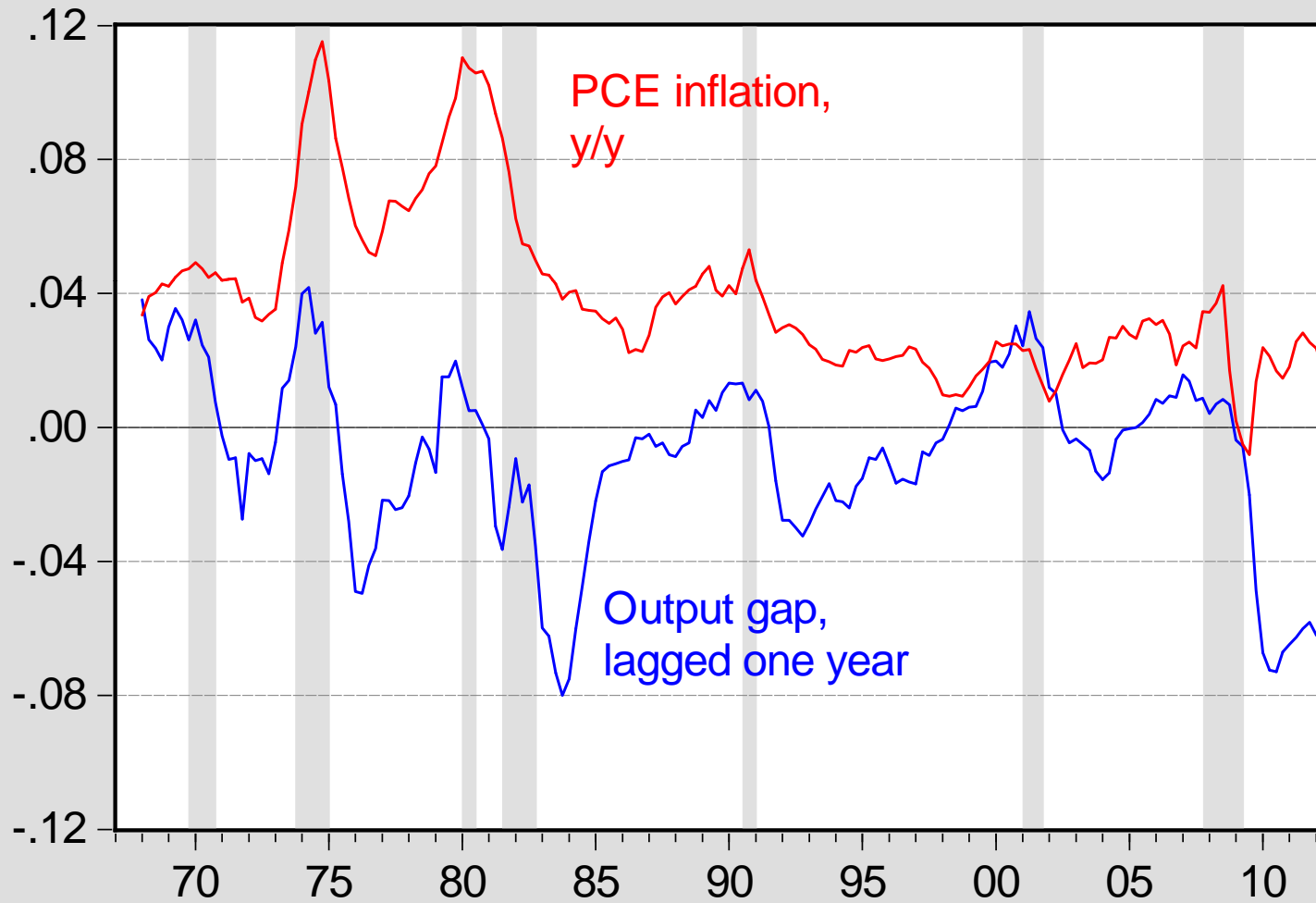
Ordinary Least Squares, Sample 1979-2010

	C	UNGAP	INFL	STRSURP	FOROFFICIAL	FEDLT	DISCMPOL	Adj. R ²	DW	SE	AIC	F
1	1.373** (0.278)	0.416** (0.143)	-0.276** (0.072)	-0.190* (0.106)				0.553	1.29	0.823	2.56	
2	1.435** (0.269)	0.481** (0.142)	-0.383** (0.090)	-0.291** (0.116)	-0.445* (0.243)			0.588	1.66	0.790	2.51	
3	1.358** (0.238)	0.648** (0.137)	-0.407** (0.080)	-0.293** (0.102)	-0.147 (0.237)	-0.561** (0.189)		0.680	1.89	0.680	2.28	0.80
4	1.331** (0.191)	0.565** (0.091)	-0.420** (0.070)		-0.349** (0.086)			0.685	1.91	0.691	2.22	
5	1.265** (0.238)	0.608** (0.135)	-0.385** (0.079)	-0.306** (0.099)	-0.254 (0.239)	-0.442** (0.198)	0.748 (0.461)	0.699	1.94	0.675	2.24	0.18
6	1.223** (0.188)	0.557** (0.086)	-0.382** (0.069)		-0.335** (0.082)		0.847** (0.413)	0.717	1.96	0.655	2.13	

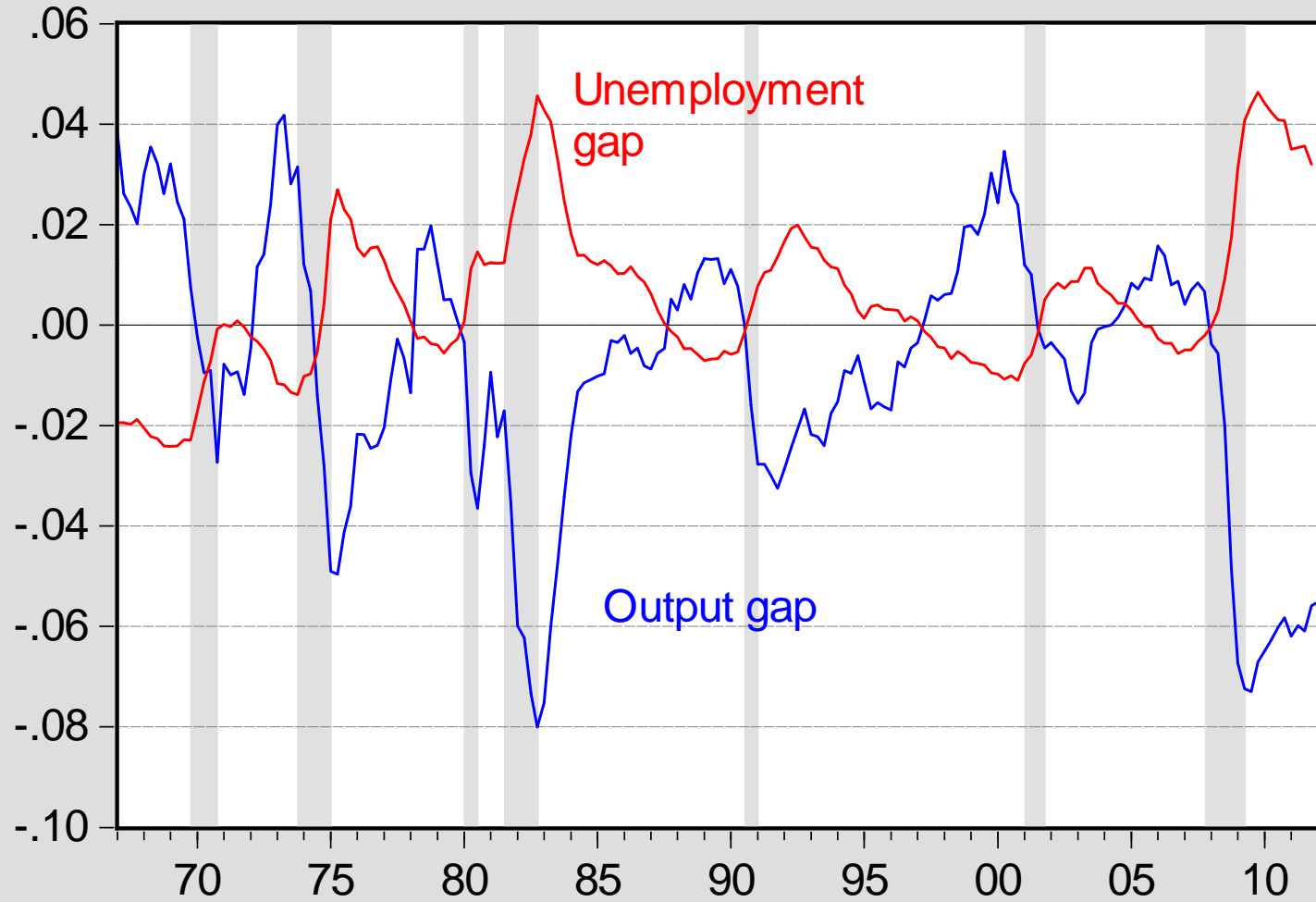
Standard errors in parentheses; ** denotes significant at the 0.05 level; * denotes significant at the 0.10 level.

John Kitchen, Menzie Chinn, "Financing U.S. Debt," *International Finance* 14(3) (2012).

Output Gap and Inflation



Okun's Law



Oil Shocks

