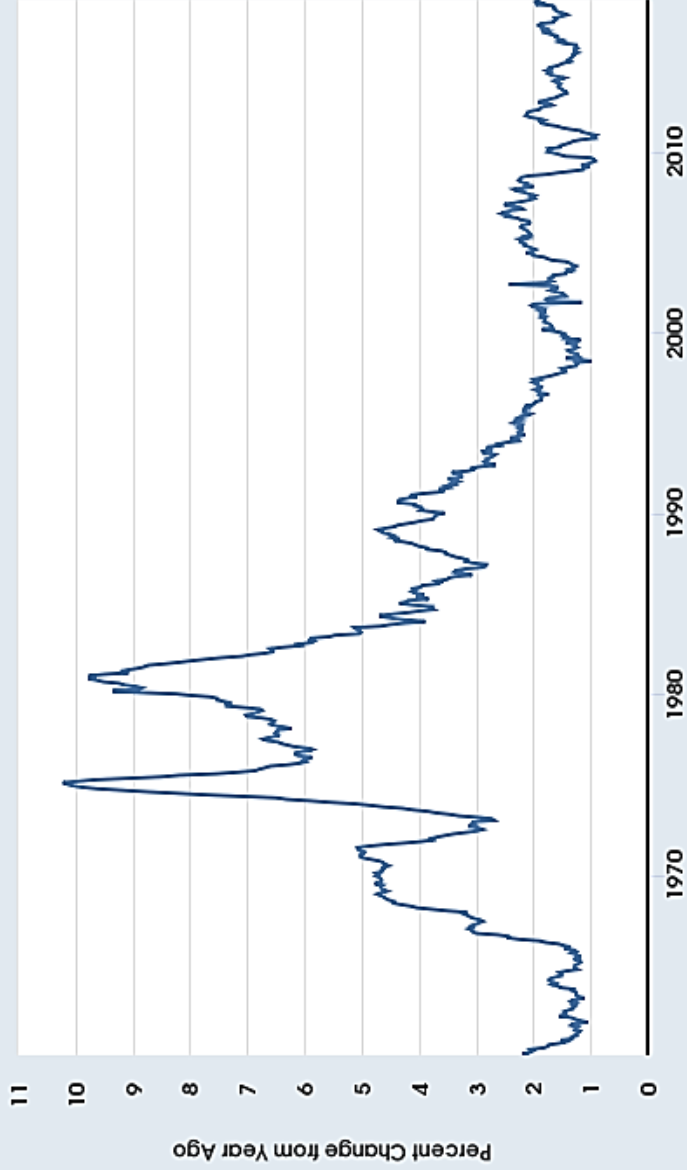


Lecture Outline, 8/23  
THE STATE OF MACROECONOMICS

- A. A Little Motivation for the First Part of the Course (Long-Run Growth and Cross-Country Income Differences)
- B. Background: The Great Moderation and the New Keynesian Model
- C. The Run-Up and Bust in House Prices
  - 1. Some basic facts
  - 2. Some issues that this raises
- D. The Real Economy in 2008 and 2009
  - 1. Some facts
  - 2. Why were the real effects of the financial stress so large?
- E. The Slow Recovery
  - 1. Some facts
  - 2. Implications for the costs of fluctuations?
  - 3. The challenges of disentangling cyclical and structural movements, and of determining whether cyclical changes have left permanent scars
- F. The Failure of Our Models to Predict or Explain the Crisis
  - 1. The severity of the downturn
  - 2. The sluggishness of the recovery
  - 3. The behavior of inflation
- G. A Little on the Papers by Caballero and Ohanian
- H. Financial Regulation and Unconventional Monetary Policy
  - 1. Interventions in financial markets
  - 2. What are the grounds for government intervention?
- I. The Importance of the Zero Lower Bound on Nominal Interest Rates
  - 1. The importance of the zero lower bound in recent years
  - 2. Some issues that this raises:
    - a. Analyzing tools for dealing with the zero lower bound
    - b. Should central banks change their monetary policy framework?
- J. A Few Thoughts about the Fiscal and Monetary Responses
  - 1. The gap between frontier academic models and models used in practice
  - 2. The political economy of fiscal stimulus
  - 3. The political economy of monetary policy
  - 4. Possible long-run threats from the monetary and fiscal responses to the crisis
- K. How Will Macroeconomics Change?

**FRED**

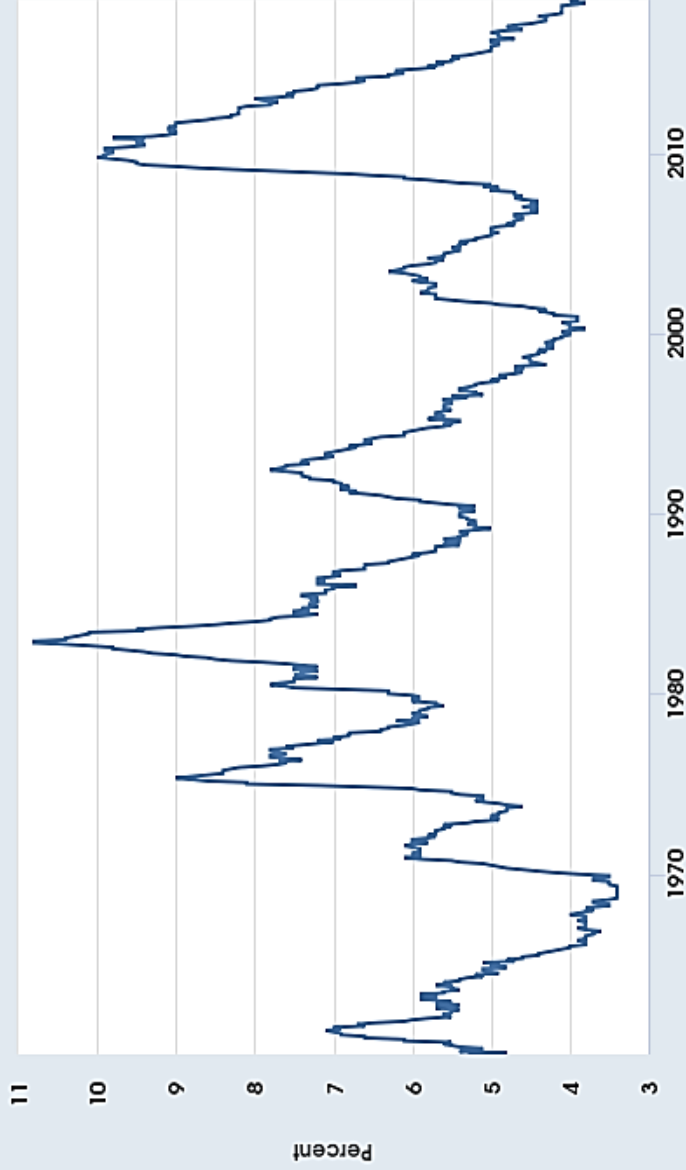
— Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index)



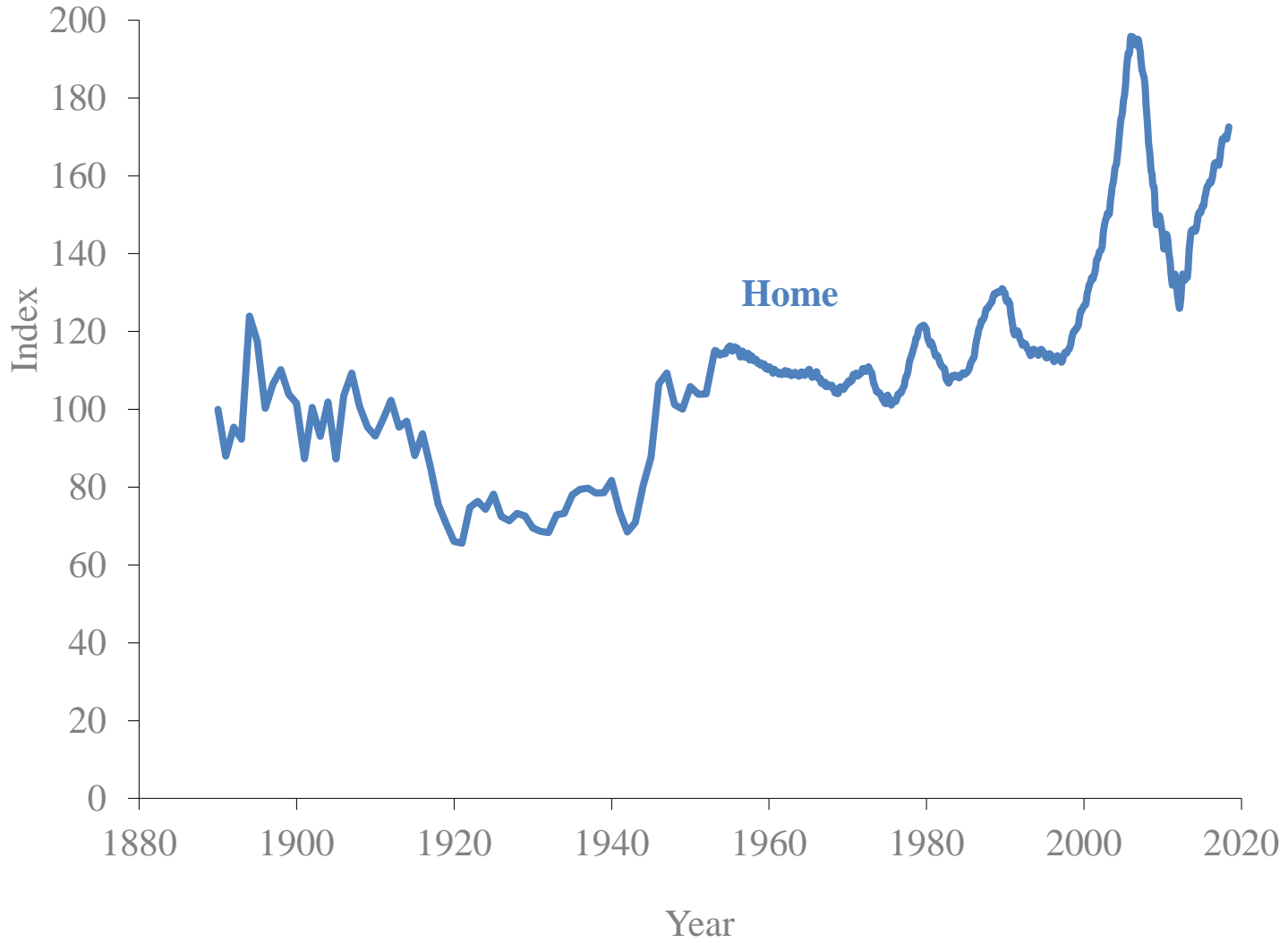
Source: U.S. Bureau of Economic Analysis

**FRED**

— Civilian Unemployment Rate

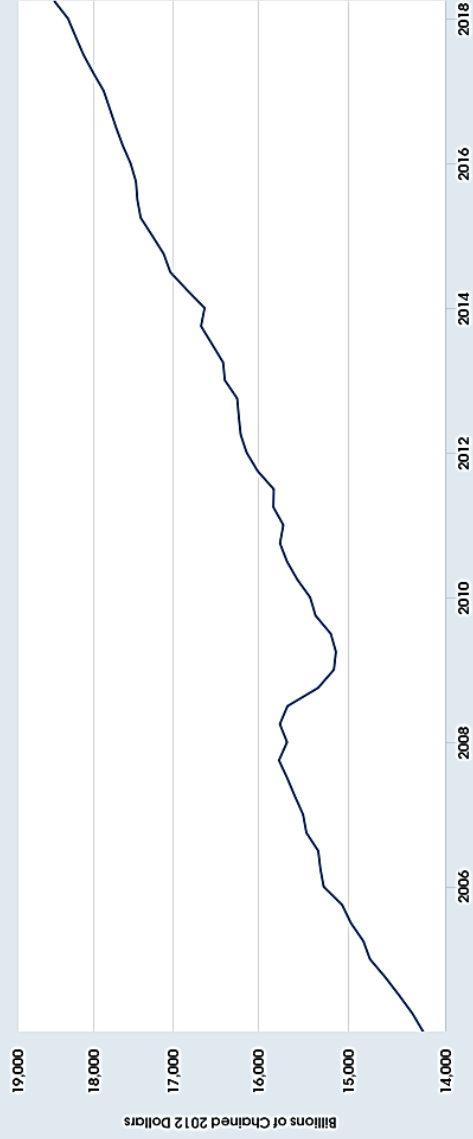


Source: U.S. Bureau of Labor Statistics



Source: Robert Shiller

**FRED** — Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis

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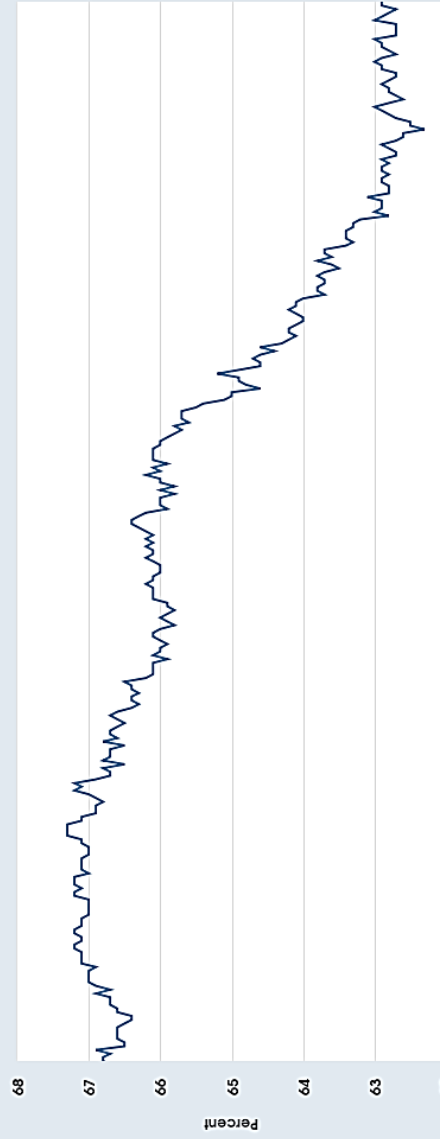
**FRED** — Real Gross Domestic Product for Euro area (19 countries)



Source: Eurostat

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**FRED** — Civilian Labor Force Participation Rate

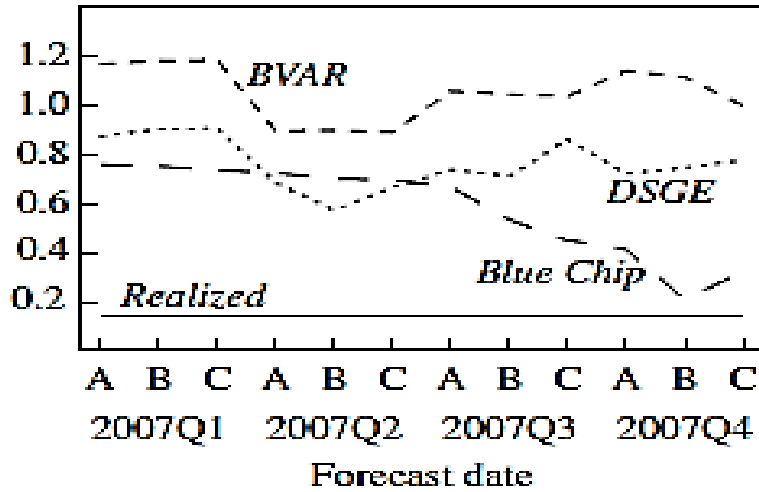


Source: U.S. Bureau of Labor Statistics

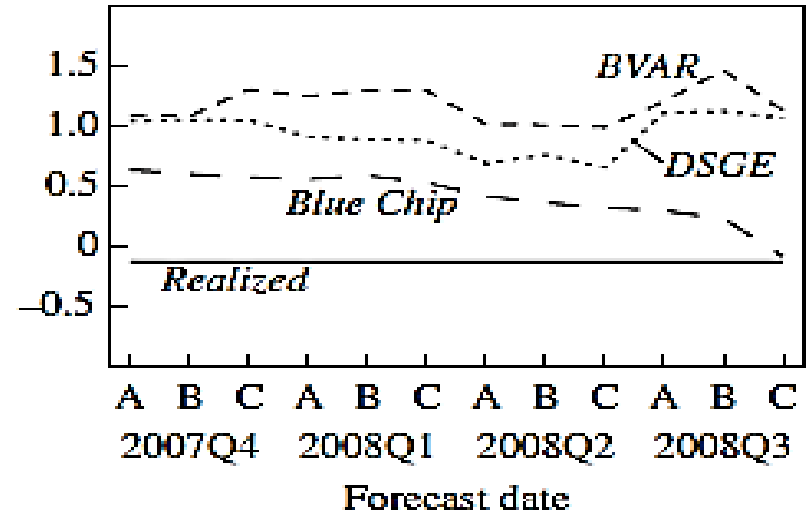
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2007Q4 forecasts  
**GDP growth**

Percent per quarter



2008Q3 forecasts  
**GDP growth**



2009Q1 forecasts  
**GDP growth**

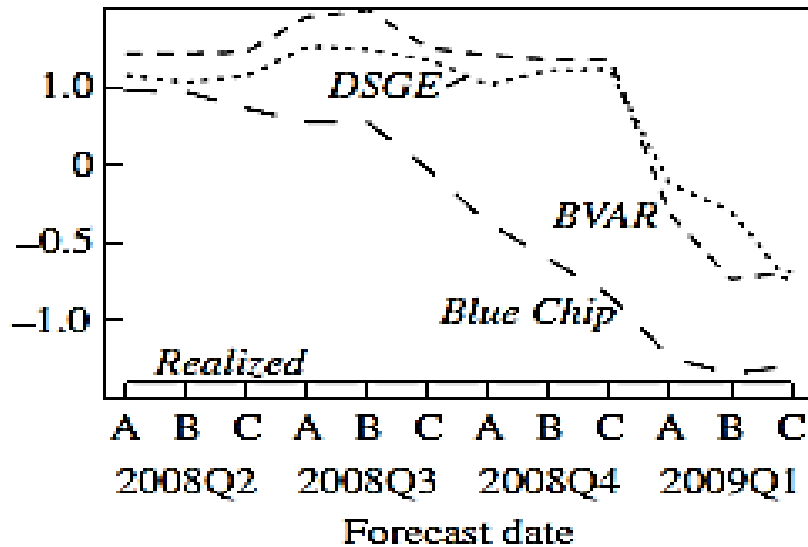
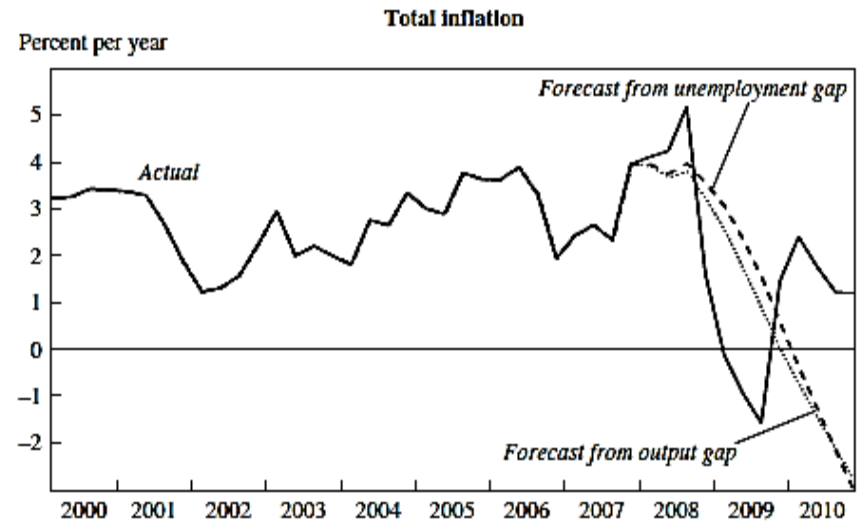


Figure 1. Dynamic Forecasts of Consumer Price Inflation, 2008–10\*



Sources: Edge and Gurkaynak (BPEA, 2010); Ball and Mazumder (BPEA, 2011).