

Term Paper Assignment

The term paper assignment requires the submission of a 10-page (of text) paper, due by 5PM, Friday, December 13th, delivered electronically (in PDF, or if necessary Word format). You can choose among several different topics discussed below, or you may select an alternative if there is a specific issue-area of the crisis that you wish to investigate further. Such topics, however, should be discussed with me before proceeding.

You should structure the paper as a formal academic paper, with introduction, statement of problem, analysis of causes (and remedies if you wish), and conclusion. In addition, a cover page, with name, title, and other relevant information (not included in the page count) should be included.

If the paper is empirically focused, then cases studies or empirical analyses should be used to buttress your arguments. Use tables and graphs where necessary. Do not cut and paste these tables and graphs from other sources; generate your own graphs and tables. Proper citation of source materials should be made. In addition, you should feel free to conduct your own statistical analyses, if you believe that would be helpful in supporting your case.

You should feel free to consult certain weblogs (Econbrowser, *WSJ* RealTime Economics, CBO Blog, Calculated Risk), and op-eds to get ideas and links to documents, **but do not cite weblog posts as references**. Also, do not cite lecture notes. I would encourage use the usual policy organization sources (including IMF, OECD, BIS, Federal Reserve Board working papers), and NBER working papers (available at <http://www.nber.org> free access from PCs on-campus).

The evaluation of the paper will be based upon the following:

1. How well is the paper organized, and how clear it is in terms of exposition.
2. How well persuasive your arguments are, including the use of models to analyze the situation.
3. How well you deploy graphs, equations, and data/figures/tables to buttress your arguments.

Topic 1: The Impact of Government Debt on Interest Rates

The portfolio crowding out model relies upon money demand depending upon wealth. The model implies, ceteris paribus, that increasing government debt results in higher interest rates on government debt. In addition, debt sustainability concerns can lead to increased sensitivity of government bond yields to the accumulation of debt. Your paper should examine some or several of the following questions:

- What is the cross country evidence in favor of higher government debt resulting in higher interest rates?
- Should expected debt matter as well as current debt?
- Are there other factors besides debt that should matter to debt yields? What are they?

A suggested background paper/source: <http://www.ssc.wisc.edu/~mchinn/intratepap7.pdf> as well as http://dss.ucsd.edu/~jhamilto/USMPF13_final.pdf. This paper topic is amenable to empirical work.

Topic 2: How Big Are Fiscal Multipliers?

One question in the debate over the stimulus package of 2009 was the magnitudes of the fiscal multipliers – in particular those for spending on government services and spending on government transfers, and to a lesser extent those for tax cuts. In your analysis, discuss:

- Why these multipliers should differ in magnitude even in simple Keynesian models.
- Whether these multipliers depend on the conduct of monetary policy, and in particular, the conduct of monetary policy during the Great Recession.
- Whether the special conditions of 2008-2010 should have had an impact.
- And whether the extent of economic slack should matter.

In your analysis, you should use graphs to aid in your analysis.

One paper that might be of use (including references) is:

<http://www.ssc.wisc.edu/~mchinn/Fiscal%20Multipliers.pdf>

Topic 3: Unconventional Monetary Policies

Discuss the evidence on the effectiveness of unconventional monetary policies, including quantitative easing and changes in the holdings of different maturities of bonds. You might wish to cover:

- What measures have been implemented in the US, Euro area, Japan, UK?
- What is the record of previous episodes of quantitative easing/credit easing?
- What are the dangers of quantitative easing/credit easing for the central bank?
- What are the potential drawbacks of quantitative easing/credit easing for the economy?
- Would QE/CE have different effects from foreign exchange intervention (central bank purchases of foreign exchange)?

Some suggested background papers/sources:

<http://research.stlouisfed.org/publications/review/10/11/Blinder.pdf>

<http://www.imf.org/external/np/pp/eng/2013/041813a.pdf>

Also see various publications in the Federal Reserve System.

Topic 4: Are Recoveries from Balance Sheet/Financial Crises-Induced Recessions Different?

The financial crisis of 2007-08, and ensuing recession, differed from most US recessions in that it involved a systemic crisis in the financial system and a housing bust. Some economists have asserted that recoveries from such events are usually slower than those accompanying monetary-induced recessions. In your paper, discuss:

- What are the characteristics of balance sheet-financial crises?
- Are recoveries from such crises/recessions slower than those of a standard recession?
- Does the crisis of 2007-08 conform to this description?

Why are recoveries from such crises/recession typically slower; i.e., what are the economic mechanisms that explain this outcome?

Suggested background papers/sources:

Carmen Reinhart and Kenneth Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton University Press, 2009). (Much of the material can be found in NBER Working Papers, authored by Reinhart and Rogoff).

<http://www.frbsf.org/publications/economics/papers/2011/wp11-27bk.pdf>

<http://www.nber.org/papers/w18194> .

Topic 5: Global Imbalances

The advent of rising dispersion of current account imbalances marked the 2000's. Since the global recession of 2009-10, they have shrunk, but not completely disappeared.

- In your analysis, discuss the various explanations for the phenomenon.
- Deploy data to explain which explanations are more plausible than others.
- Project the trajectory of current account imbalances, based upon your preferred model.

Suggested background papers/sources:

http://www.ssc.wisc.edu/~mchinn/global_imbalances.pdf

http://www.ssc.wisc.edu/~mchinn/CEI_OEP2013.pdf

Topic 6: The Euro Area Crisis

Since 2010, the euro area has been in recurrent crisis, with the economy only now exiting recession – the second one in the past five years. Why the euro area entered into crisis, while the United States managed to avoid another one? In your analysis, be sure to address:

- Why did certain countries in the euro area experience a sovereign debt crisis?
- Why did the fiscal measures undertaken in response to the crisis throw the rest of the euro area into recession?
- Why was countercyclical monetary and particularly fiscal policy not implemented?

Suggested background reading:

http://www.brookings.edu/~media/Projects/BPEA/Spring%202012/2012a_Shambaugh.pdf

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