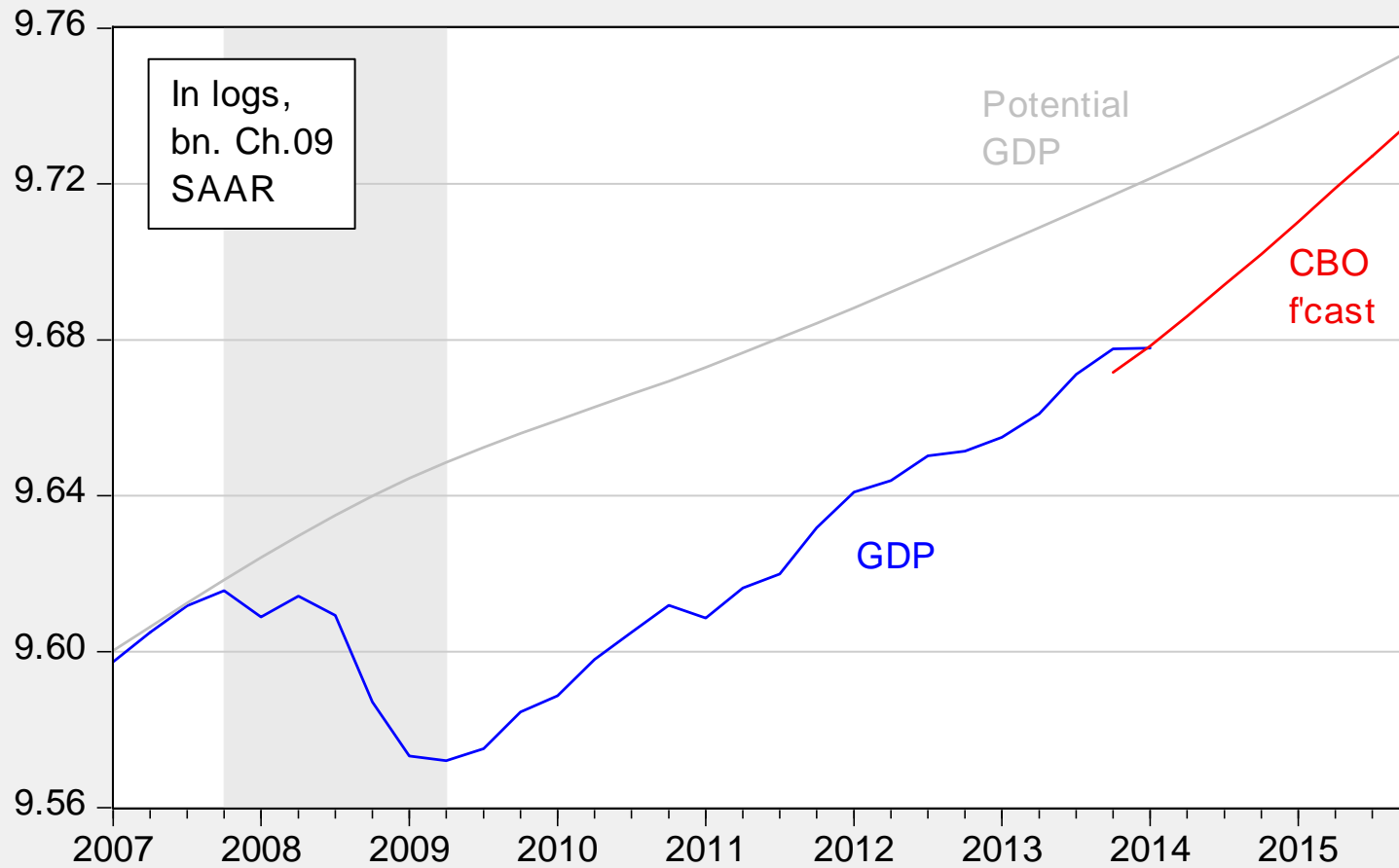


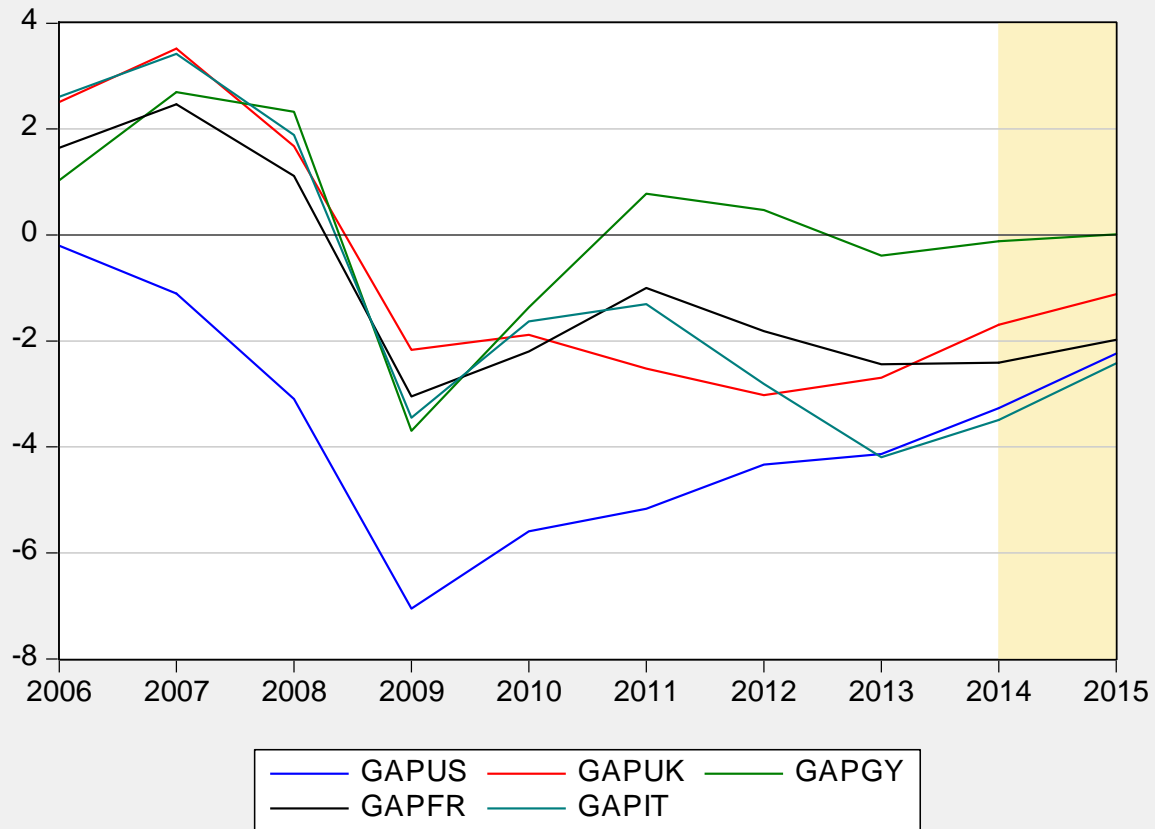
Economics 435  
The Financial System  
(5/7/2014)

Instructor: Prof. Menzie Chinn  
UW Madison  
Spring 2014

# Output Gap



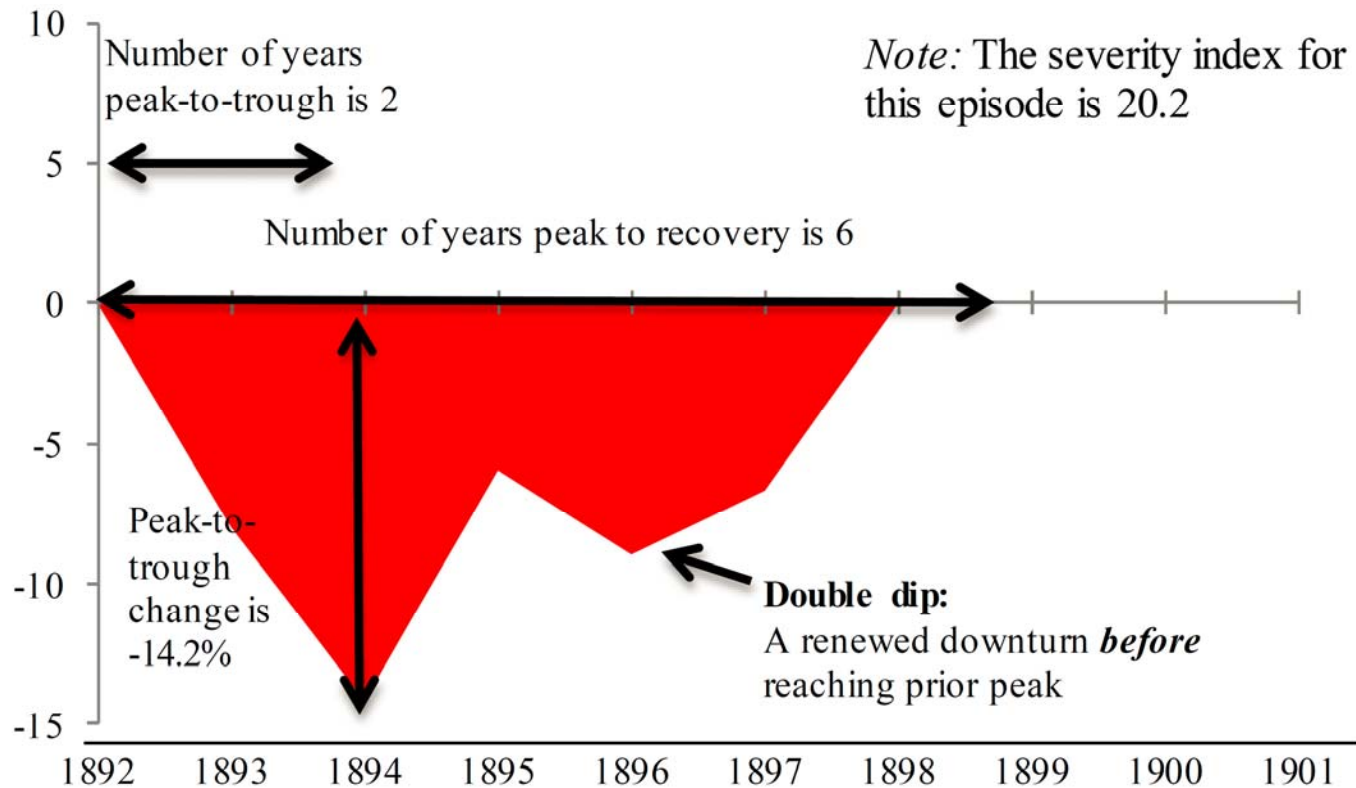
# Advanced Country Output Gaps



# Big Banking Crises & Slow Recoveries

Figure 1. Basic concepts: An Illustration with the US Banking Crisis of 1893

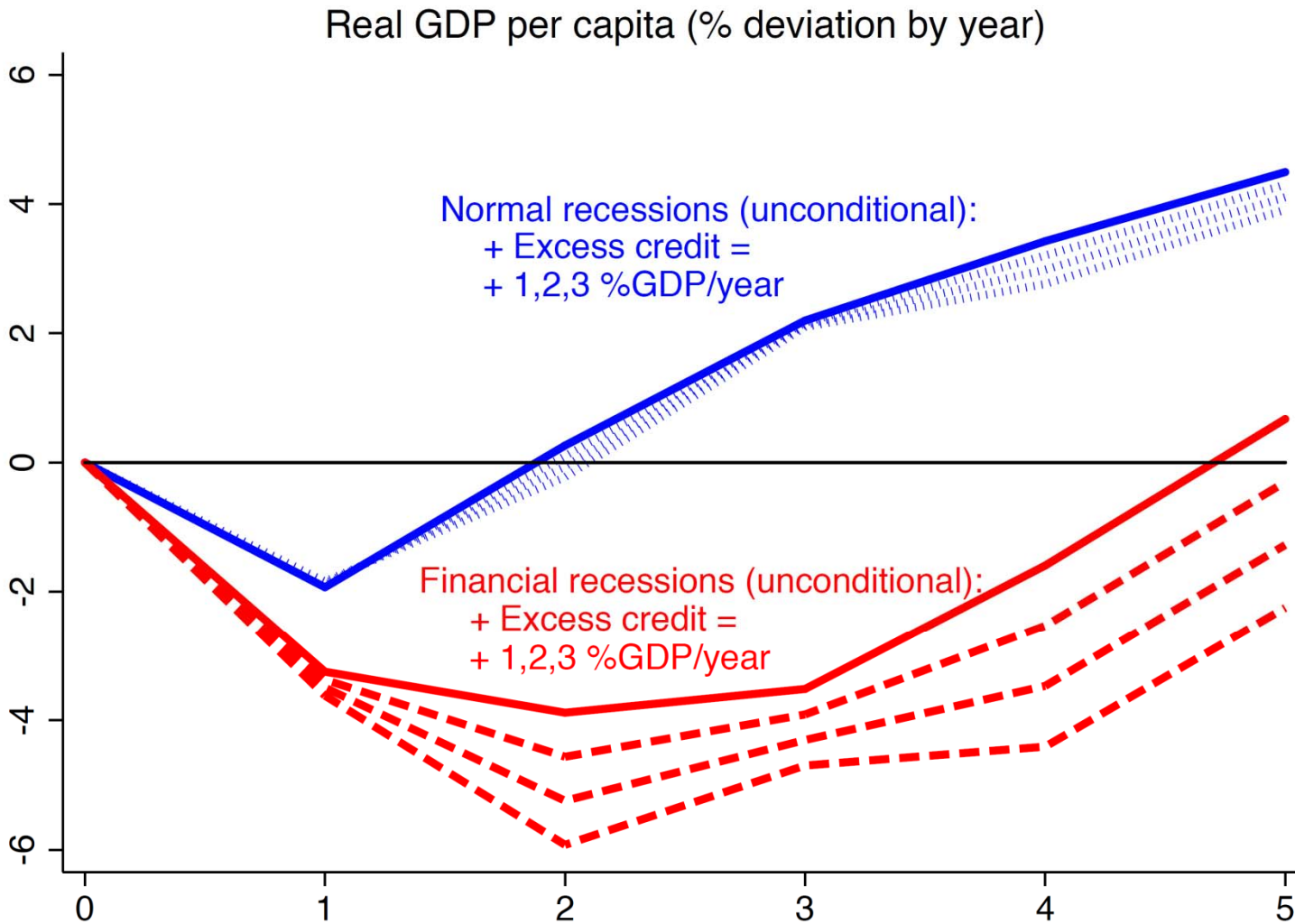
Percent



Sources: Reinhart and Rogoff (2014) and sources cited therein.

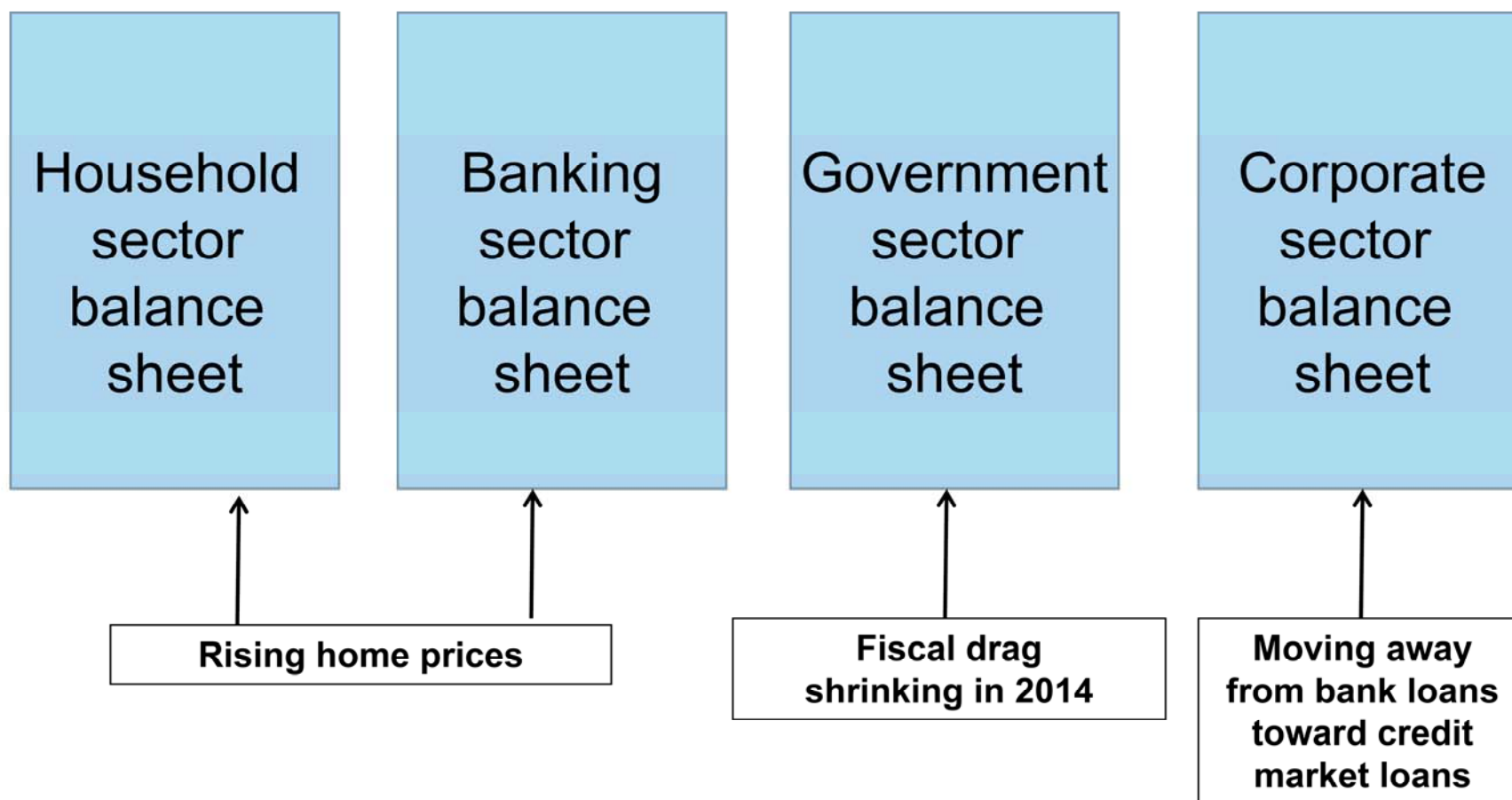
Reinhart and Rogoff, "Recovery from Financial Crises: Evidence from 100 Episodes" (2014)

# Credit Booms and Crashes

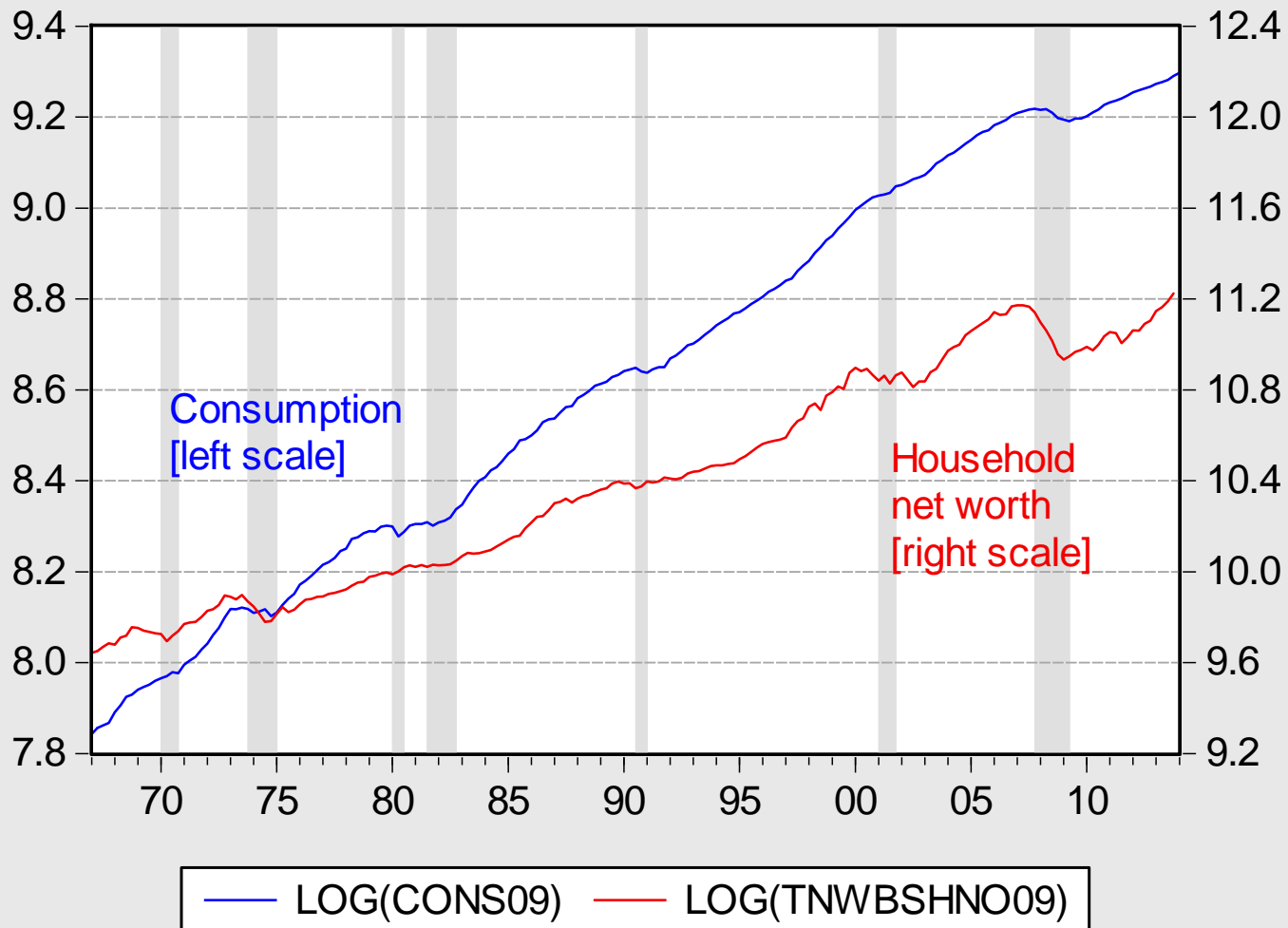


Jorda, Schularick, and Taylor (2012)

# The ongoing housing recovery is healing household and banking sector balance sheets

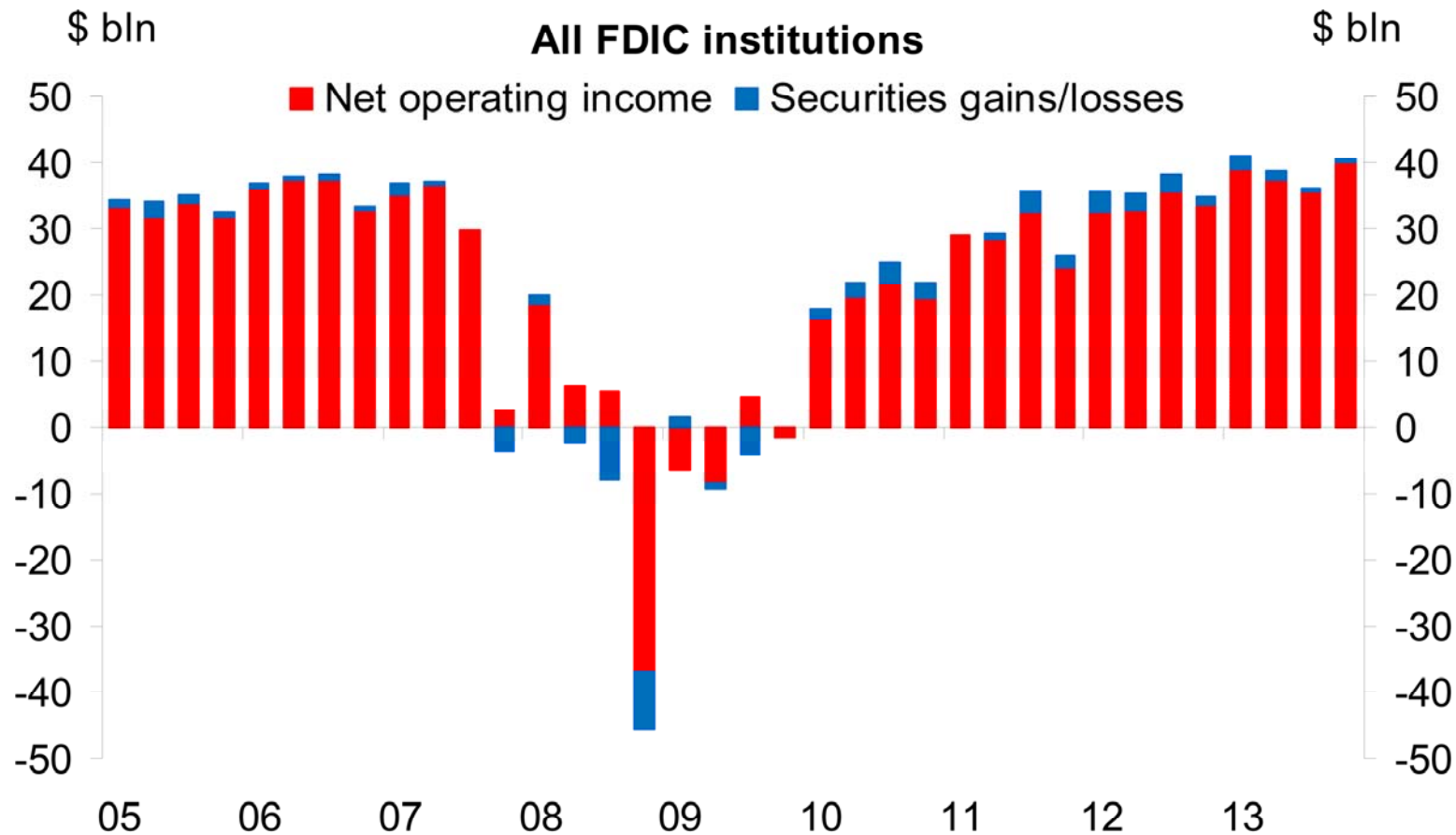


# HH Balance Sheets



# Bank Balance Sheets

Banking sector quarterly net income currently at the same level as in 2005 and 2006

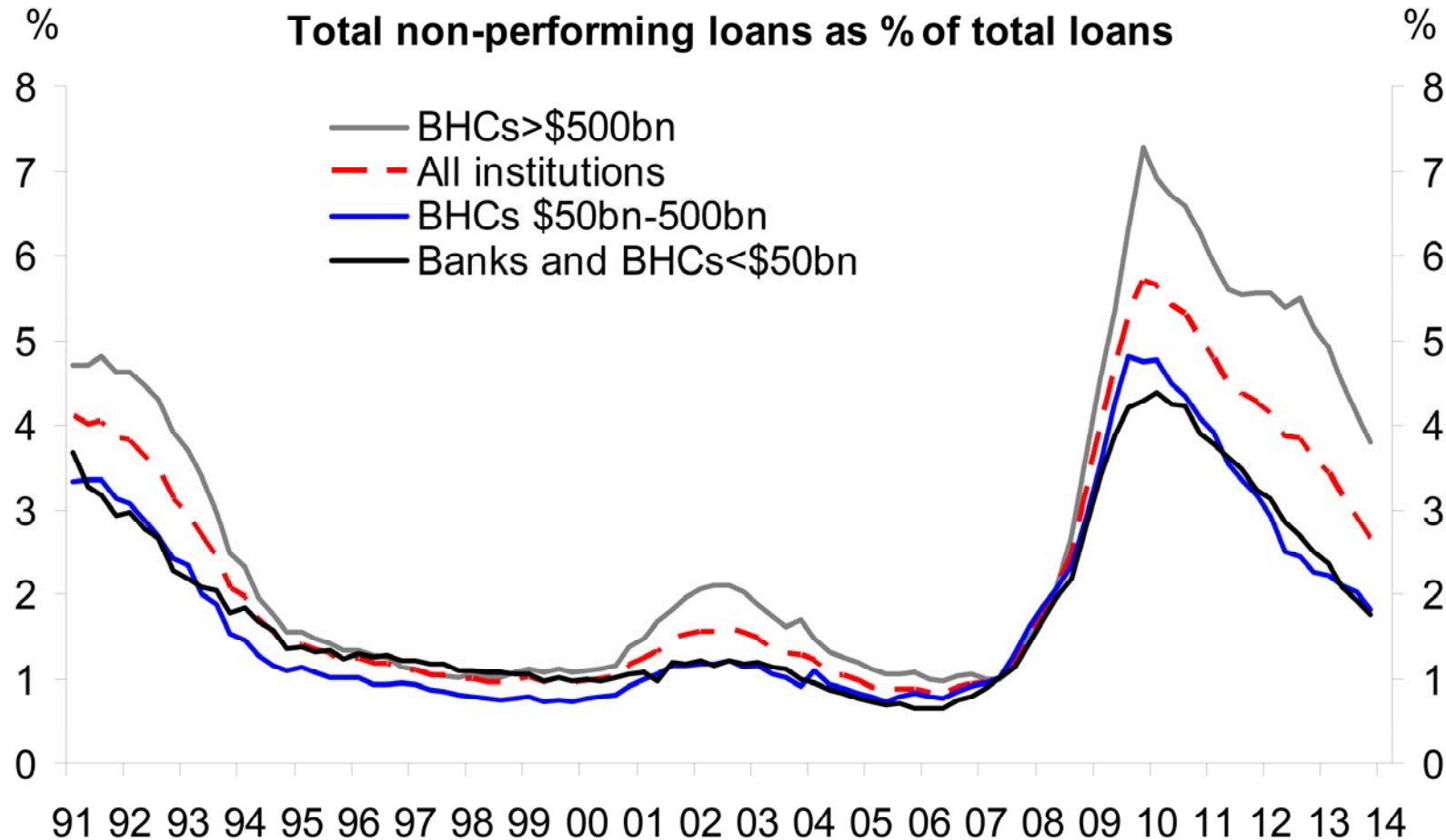


Source: FDIC, Haver Analytics, DB Global Markets Research



# Bank Balance Sheets (II)

Balance sheet repair almost complete in small banks...



Note: Non-performing loans include loans that are (1) 90 days or more past due and still accruing or (2) non-accrual.

Source: FRBNY, DB Global Markets Research

# Back to IS-LM

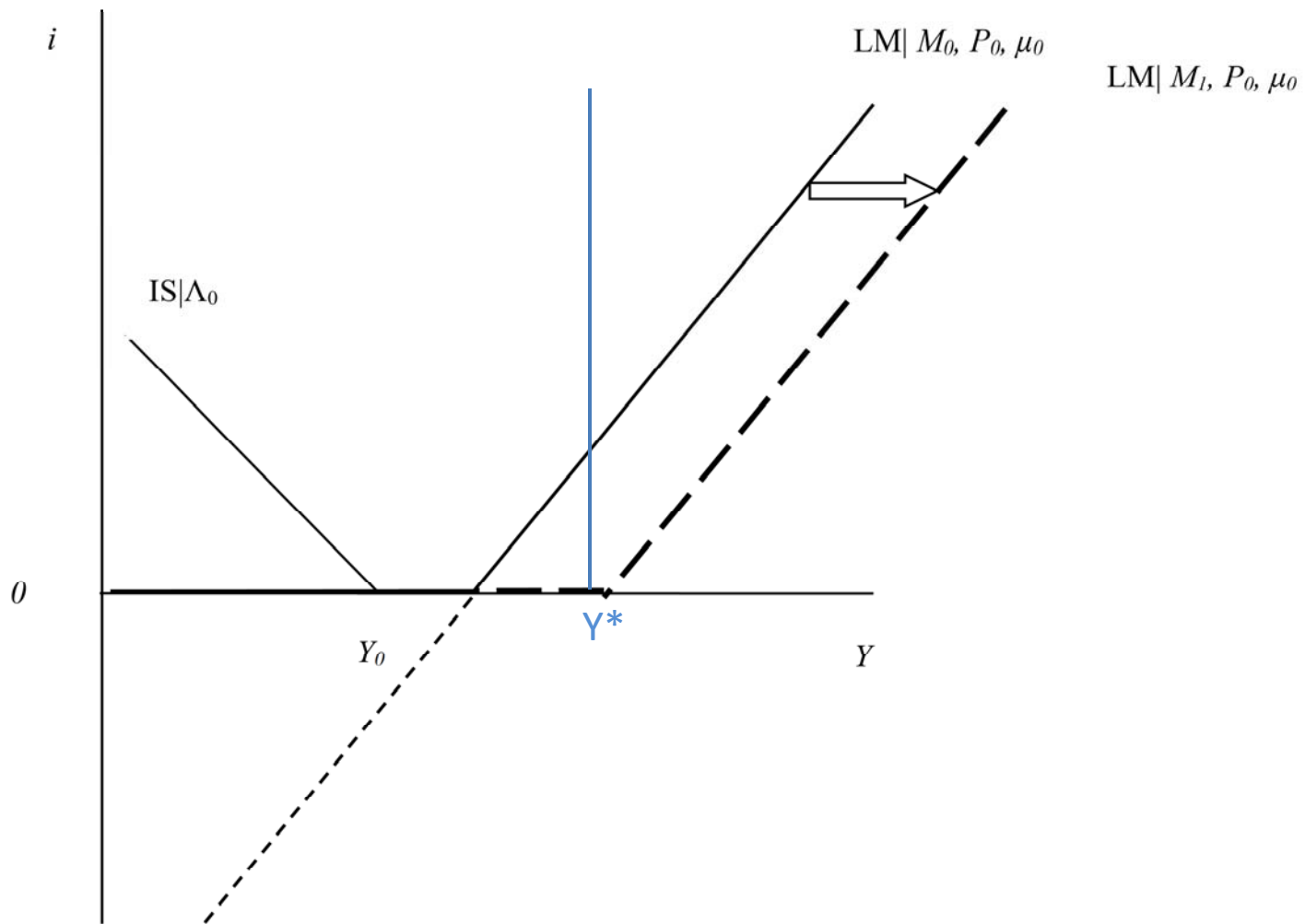
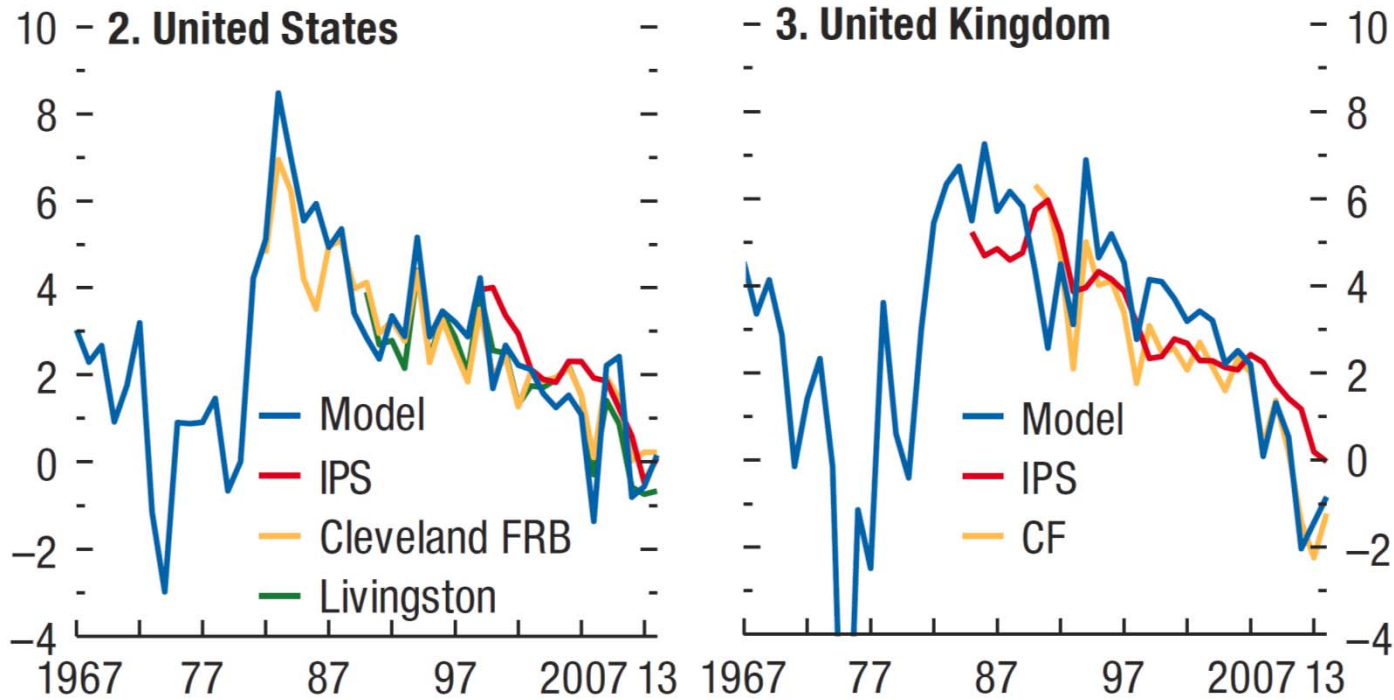


Figure 6. Monetary Policy in the Liquidity Trap

## Ten-Year Real Interest Rate Comparison



Sources: Consensus Economics; Federal Reserve Bank of Cleveland; Federal Reserve Bank of Philadelphia, *Livingston Survey*; Federal Reserve Bank of Philadelphia, *Survey of Professional Forecasters*; Haver Analytics; and IMF staff calculations.

Note: CF = *Consensus Forecasts*; FRB = Federal Reserve Bank; IPS = inflation-protected securities.

# But the Government is Retrenching

