

Economics 442  
Macroeconomic Policy

Lecture 1

1/20/2016

Instructor: Prof. Menzie Chinn

UW Madison

Spring 2015

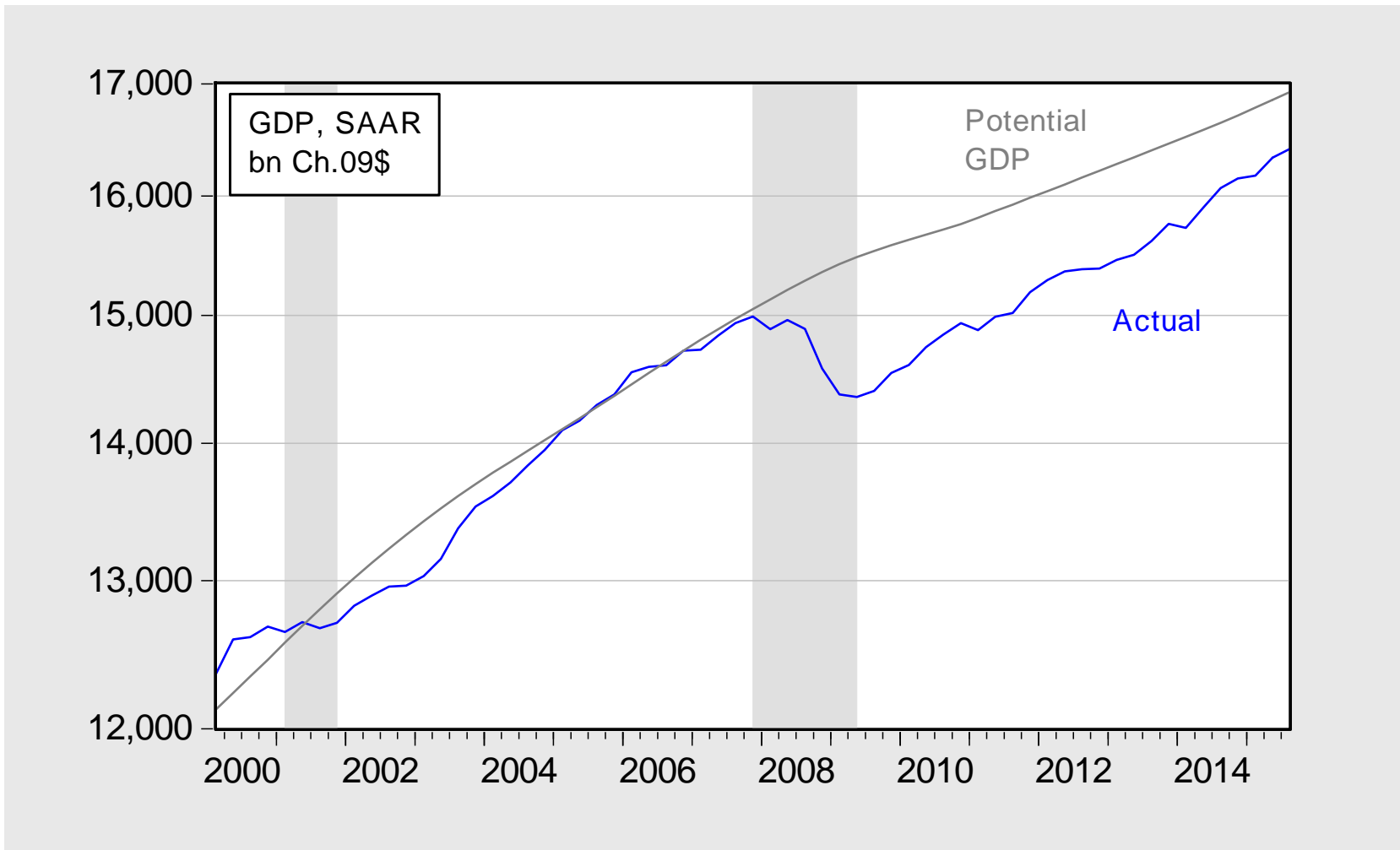
# Administrative Issues

- Course website:  
[http://www.ssc.wisc.edu/~mchinn/web442\\_s16.html](http://www.ssc.wisc.edu/~mchinn/web442_s16.html)
- OH: MW 4-5, 7418 Soc Sci
- Textbook: Blanchard/Johnson,  
*Macroeconomics*
- Additional Readings: from IMF, CBO, web,  
Econbrowser
- *NYT, FT, WSJ, Economist*

# Administrative Issues

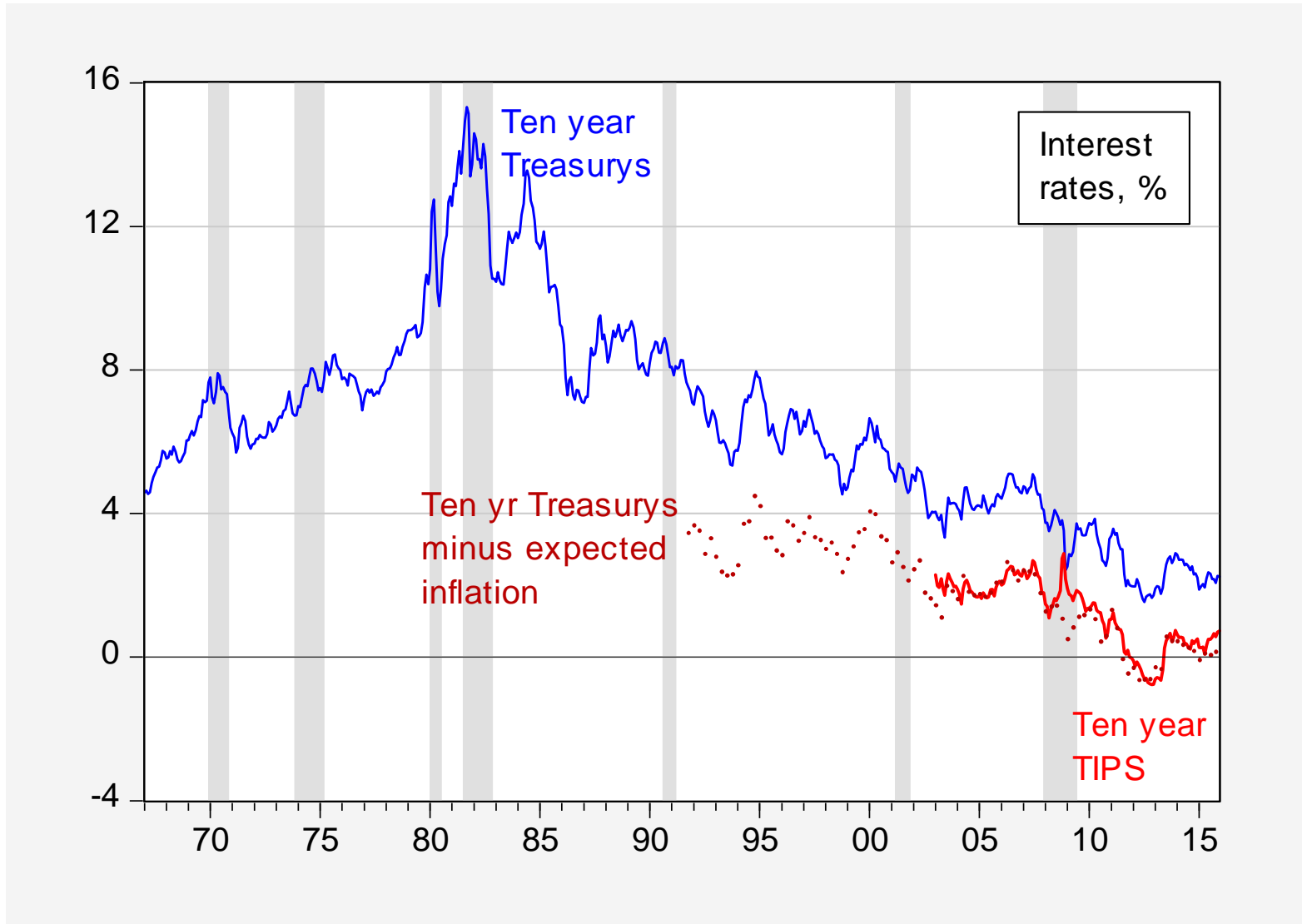
- Grading: 20% PS, 50% 2×MT, 30% paper
- Dates:
  - MT on 2/24, 4/6
  - **Paper due on Fri, 5/6**
- Make-ups: **None**. Points are re-allocated *if* you have a legitimate excuse. **No** late assignments accepted (must be handed in during lecture)

# Secular Stagnation: Deficient AD

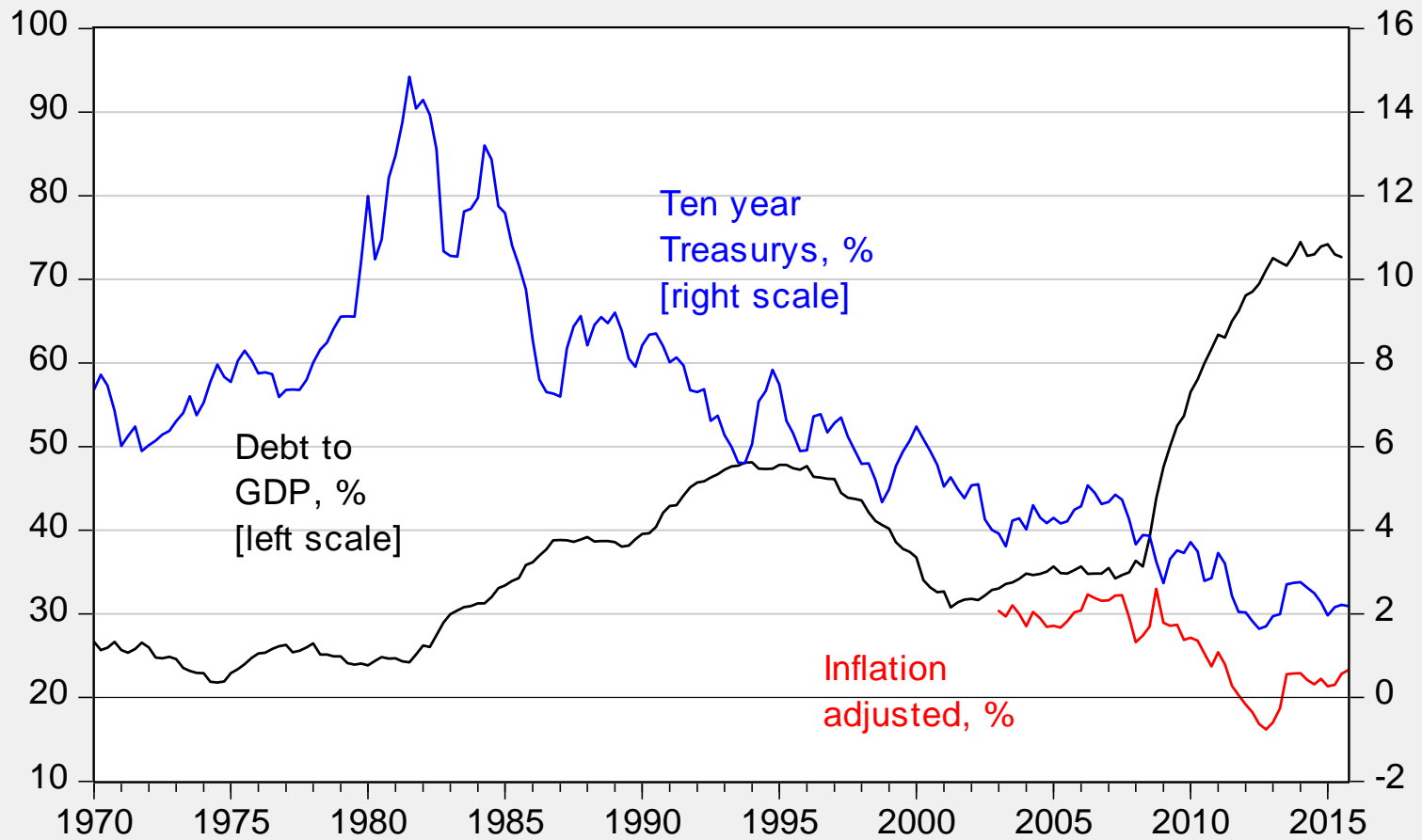


Source: BEA, 2015Q3 final, CBO, Budget and Economic Outlook (September 2015), NBER.

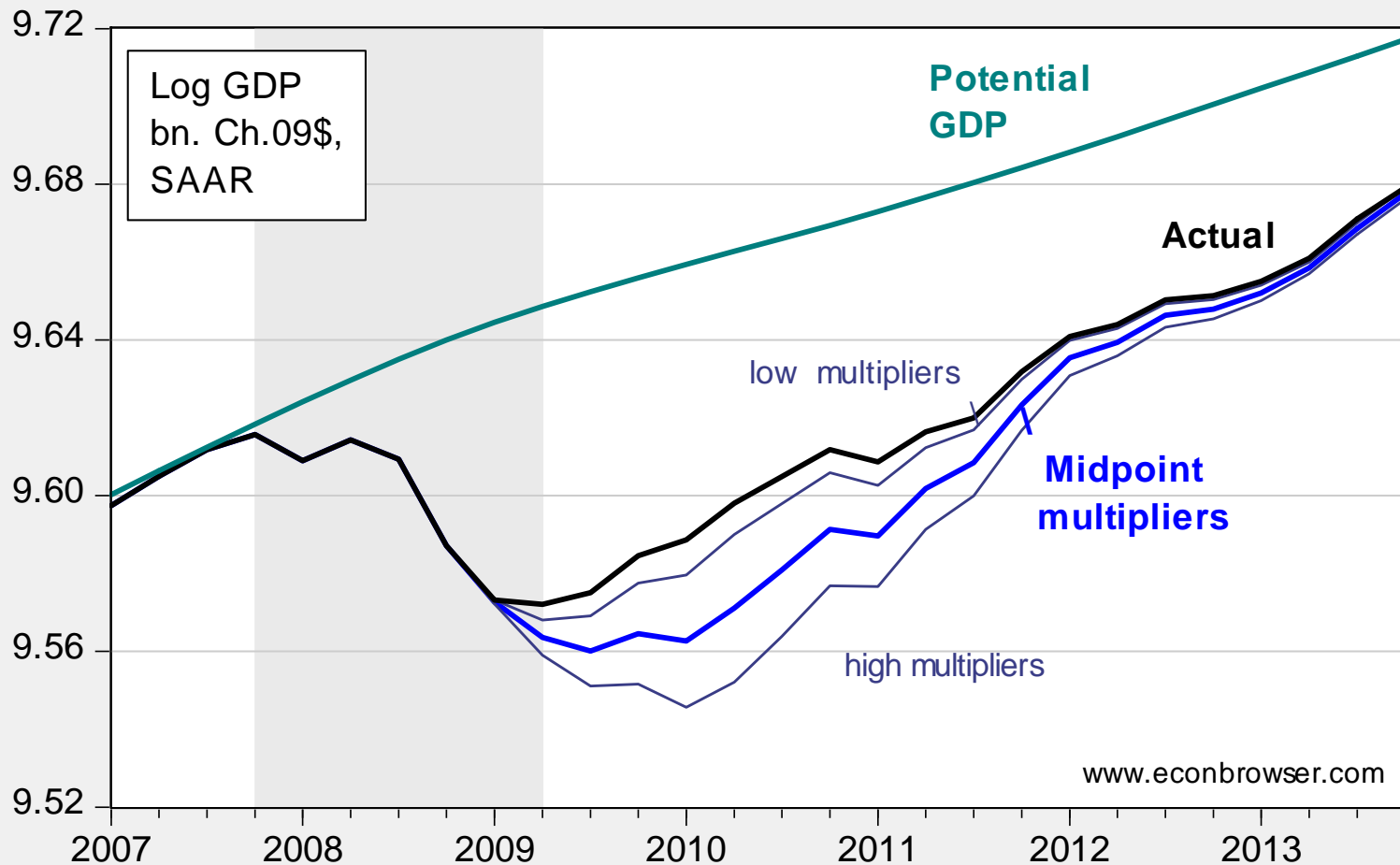
# Secular Stagnation: Excess Saving?



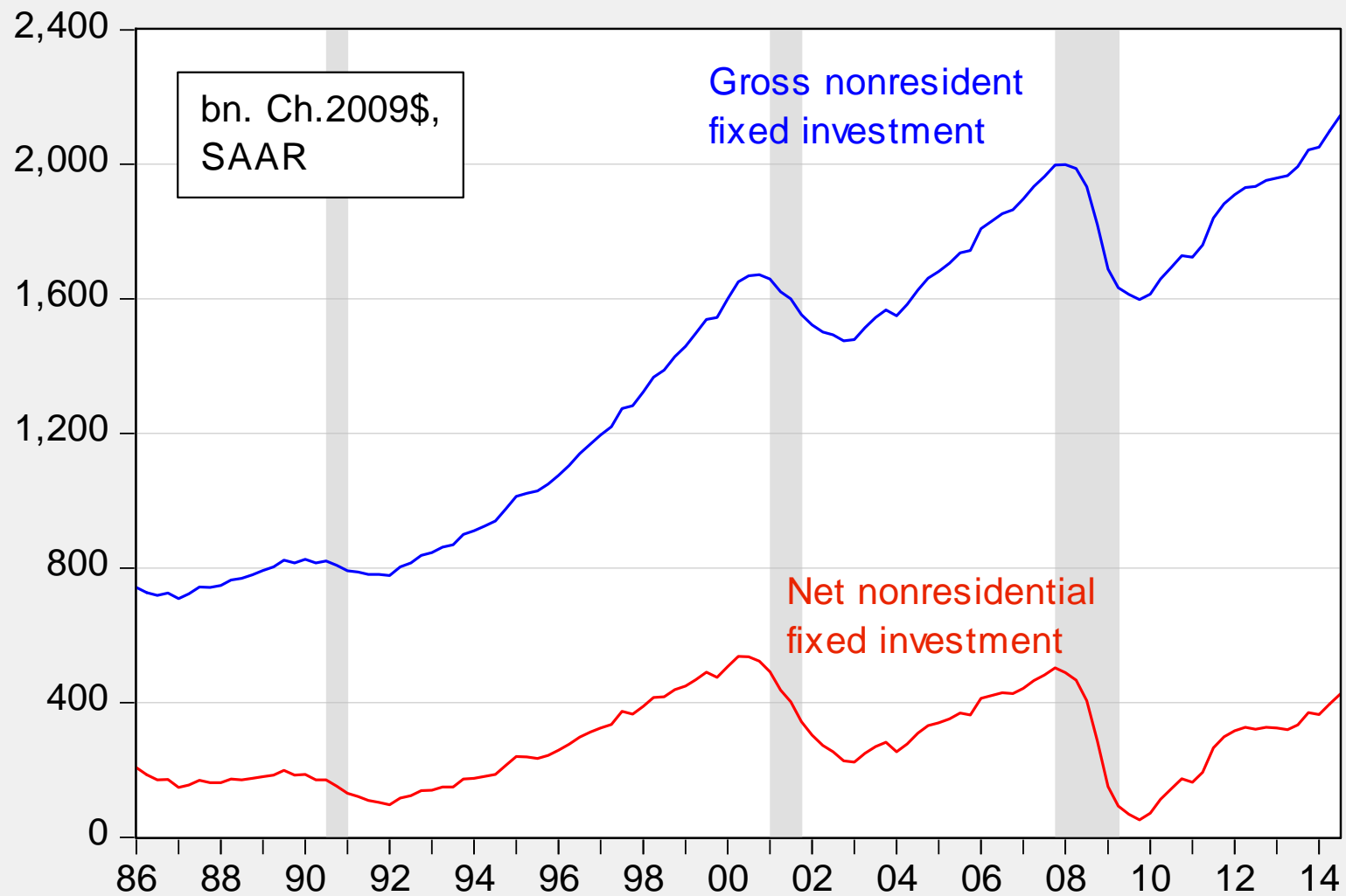
# A Puzzle



# The Fiscal Policy Debate

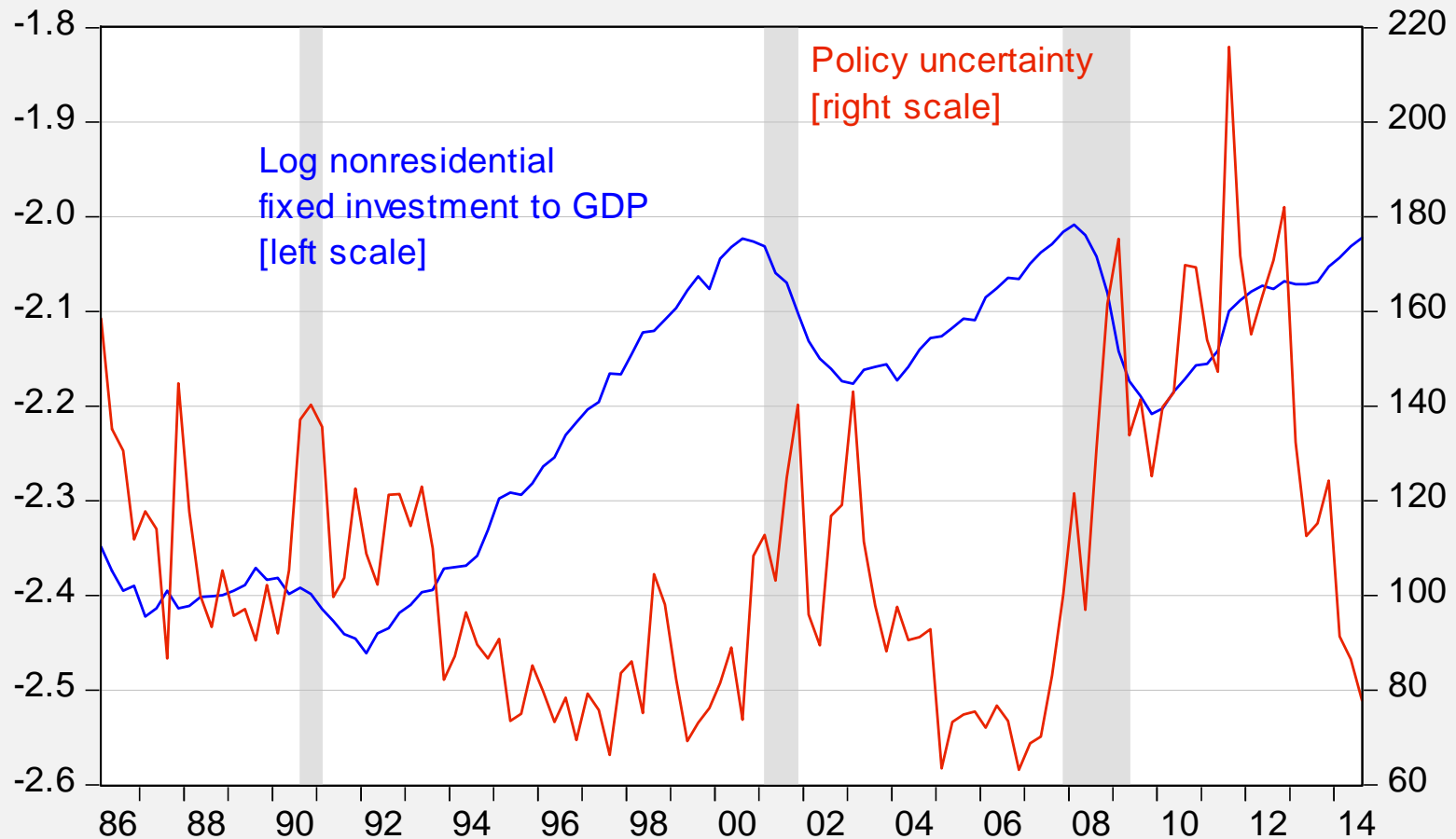


# The Investment Puzzle

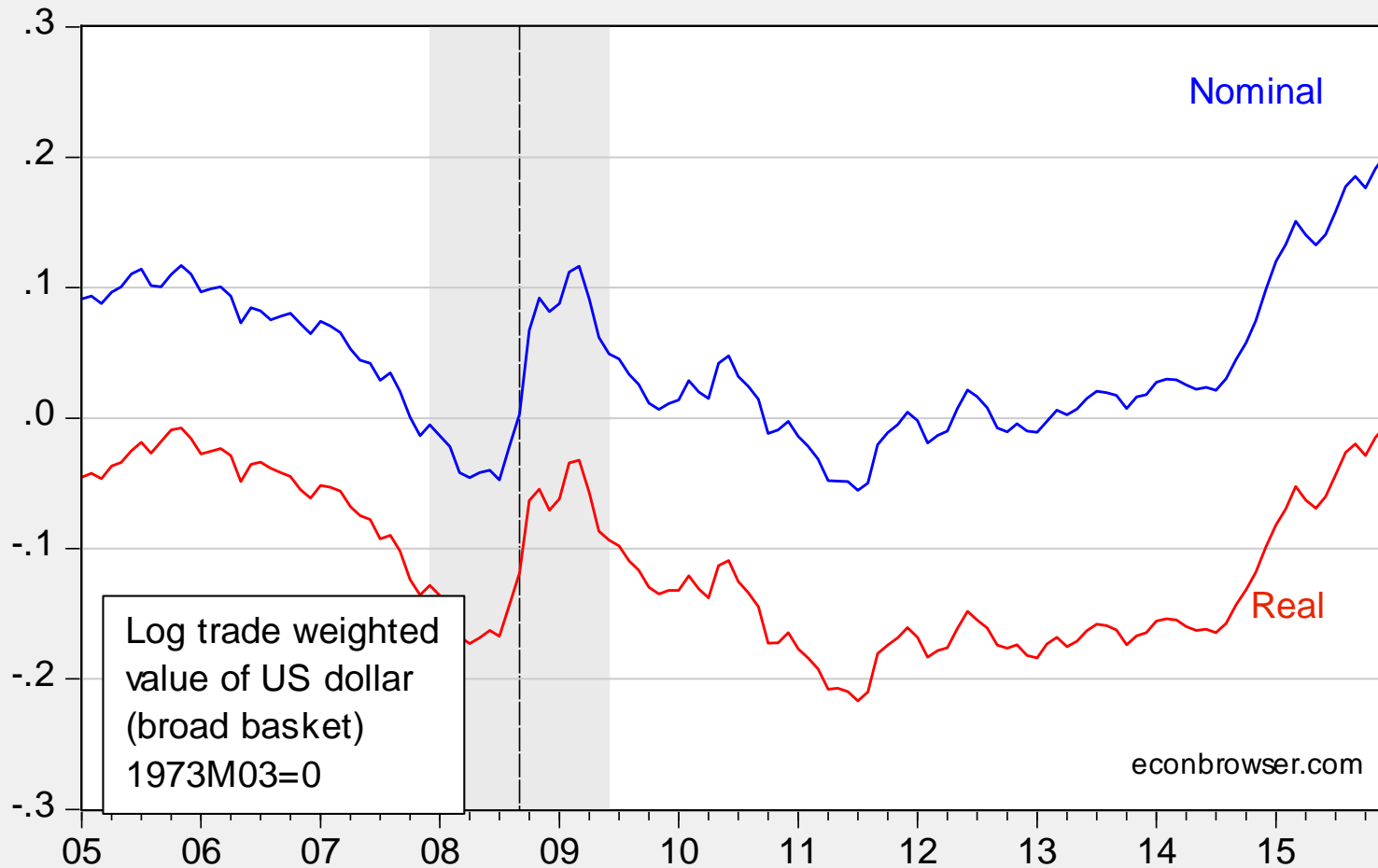




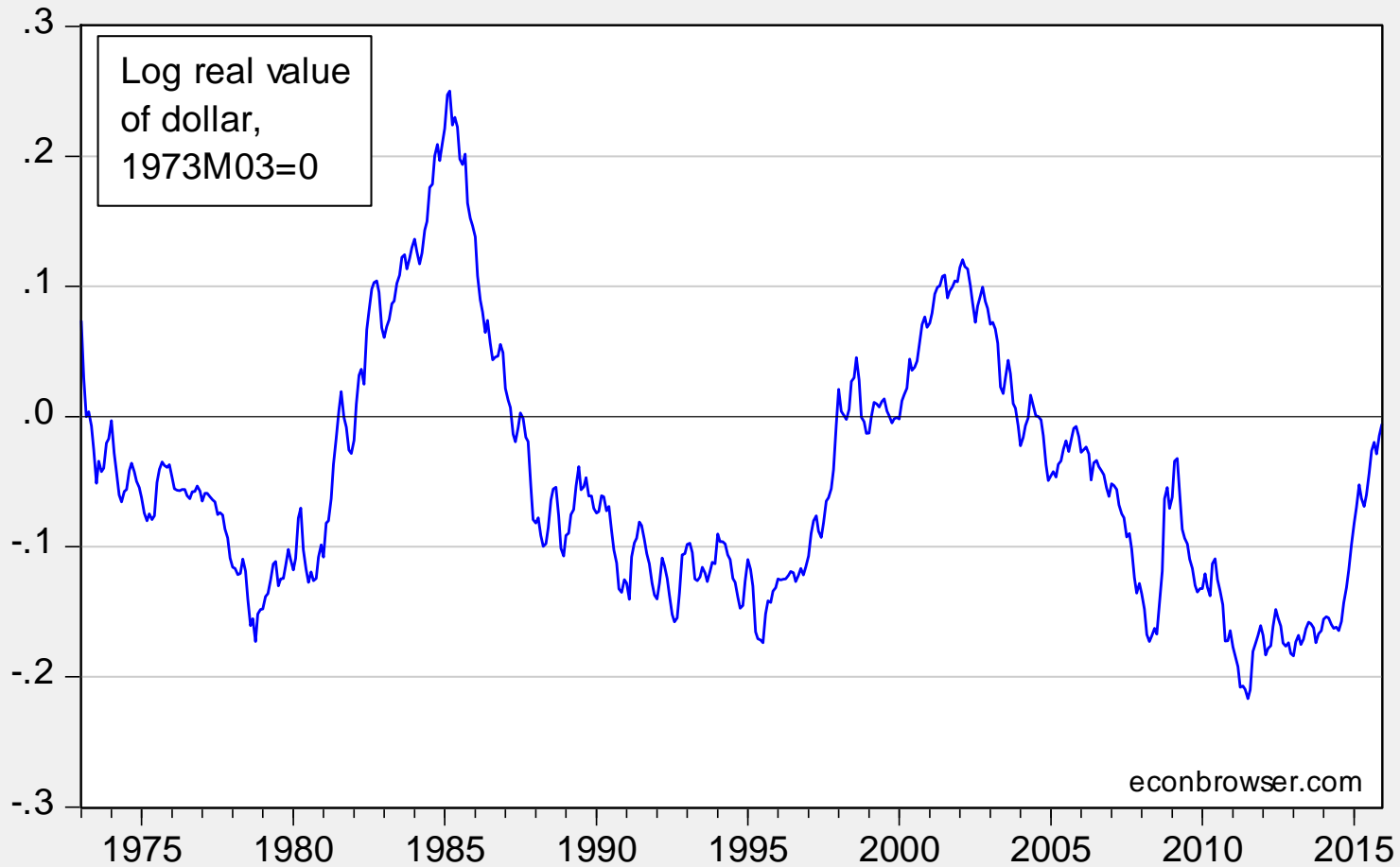
# Investment and Uncertainty



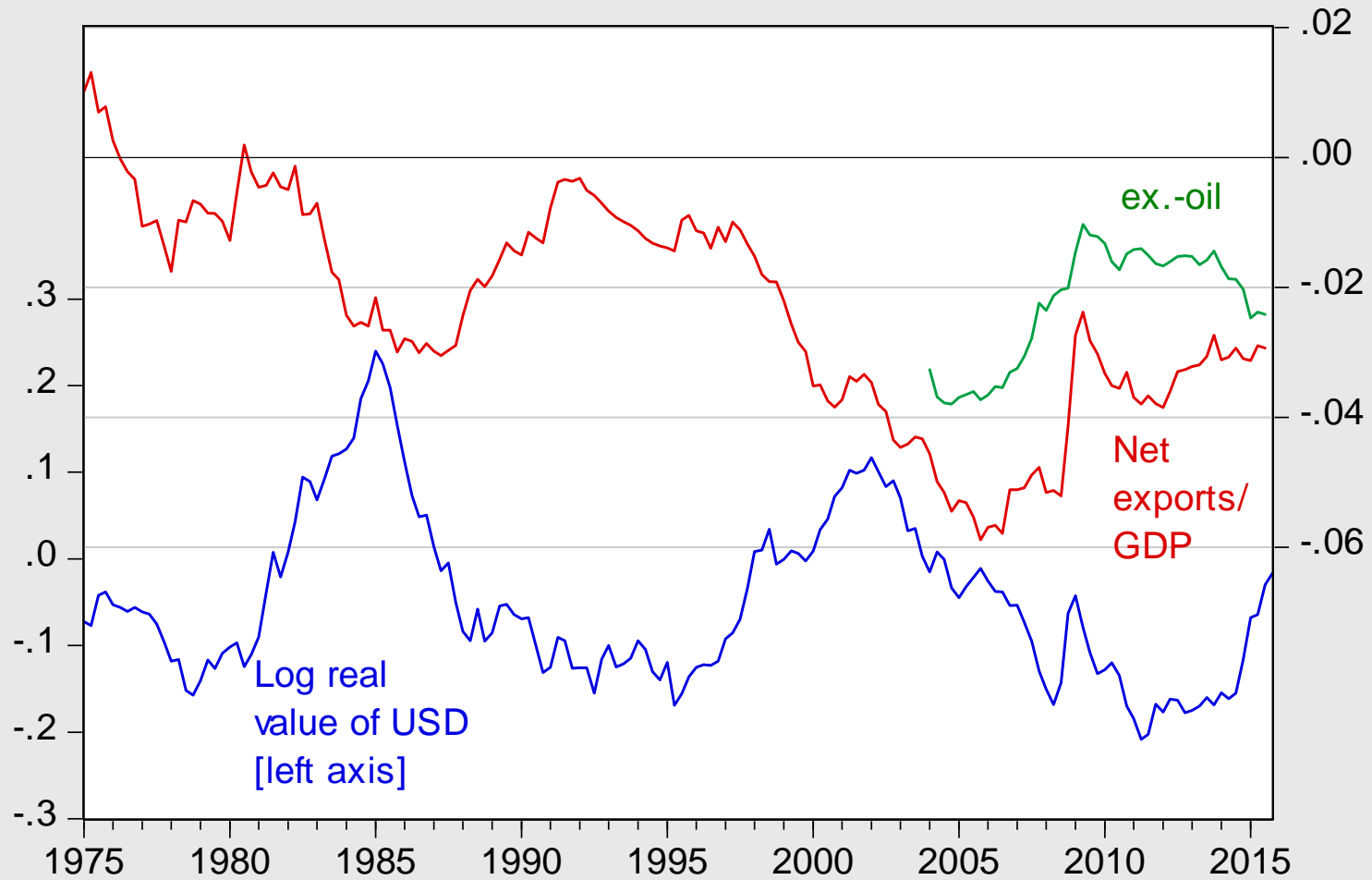
# Rise of the Dollar



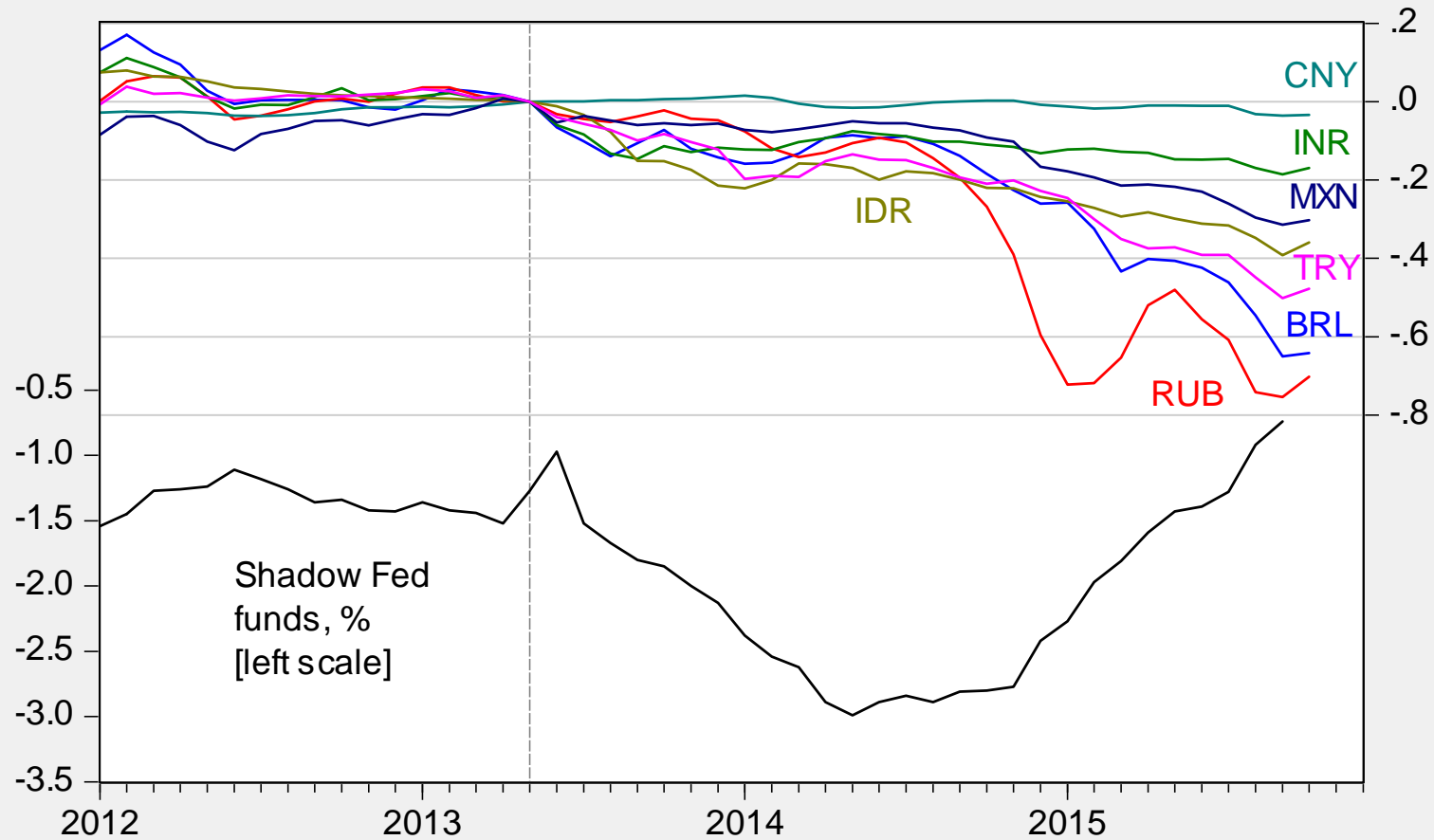
# The Dollar's Rise in Perspective



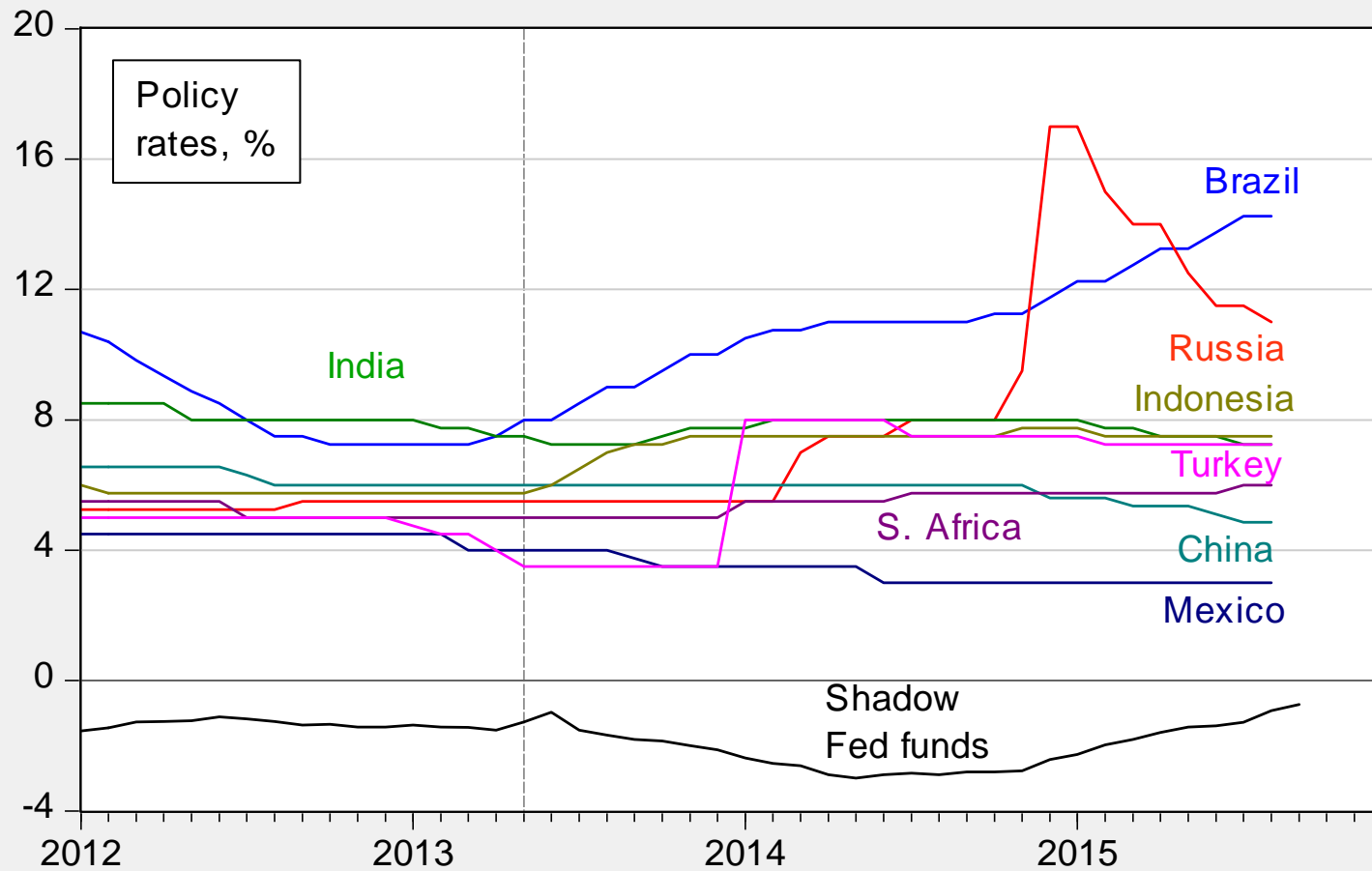
# The Dollar and Net Exports



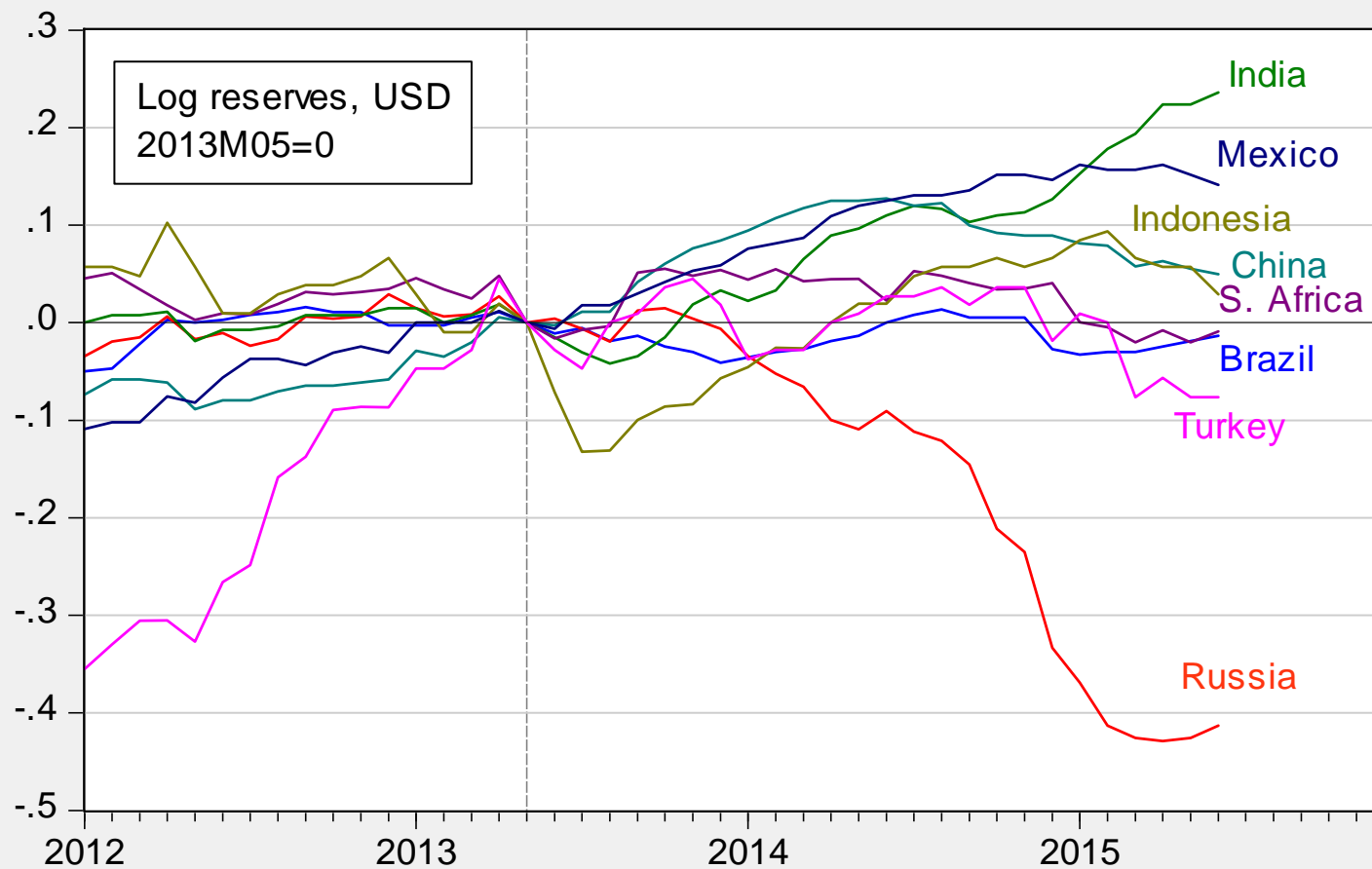
# Emerging Markets under Stress



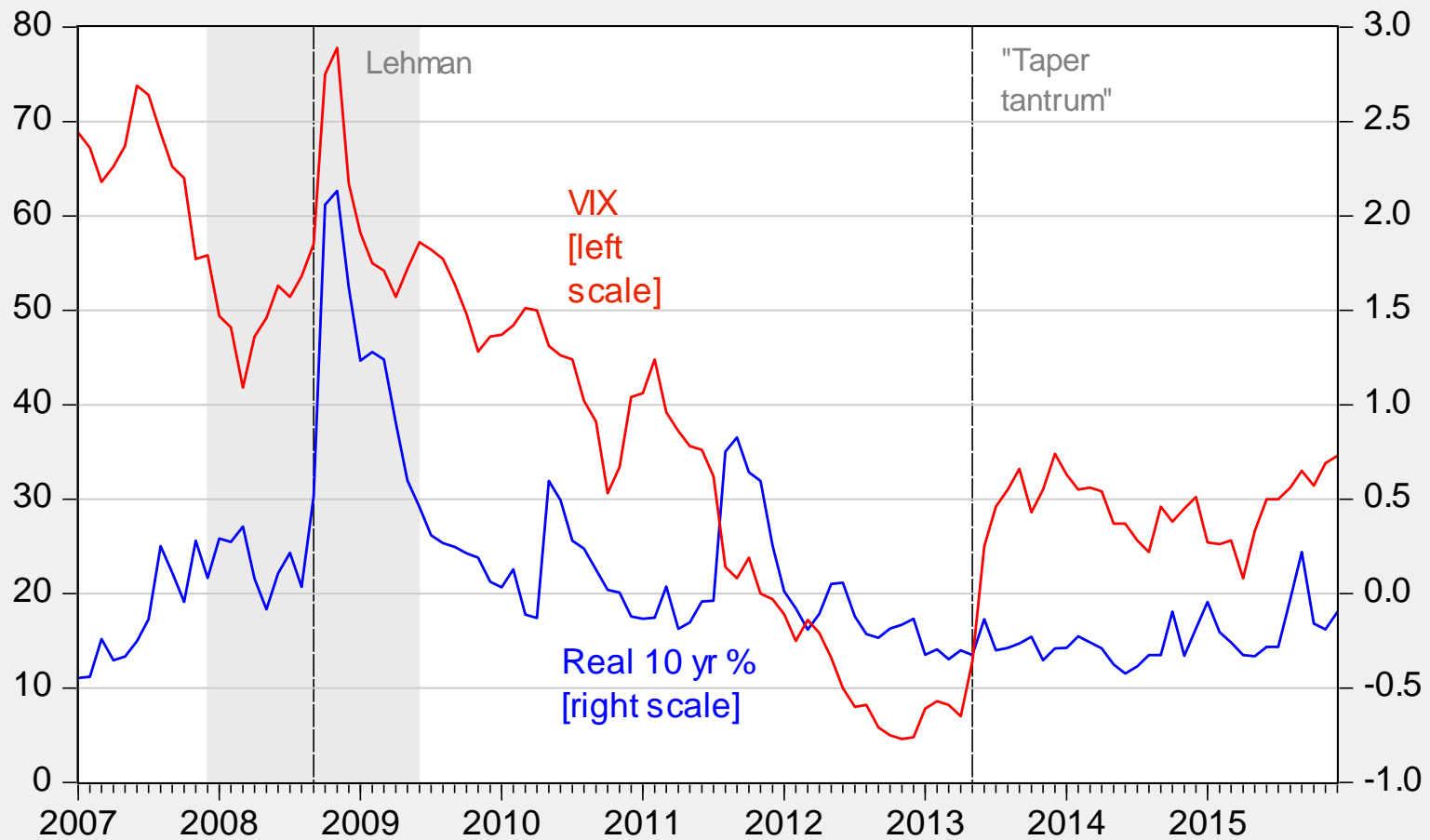
# Emerging Markets under Stress



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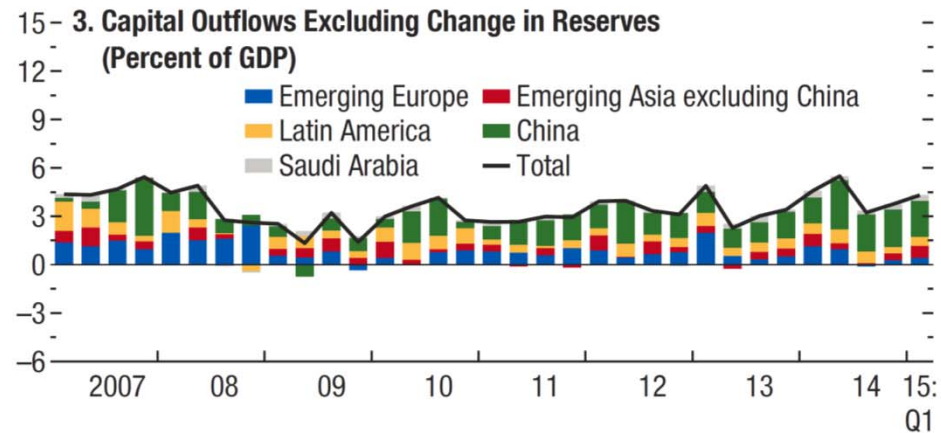
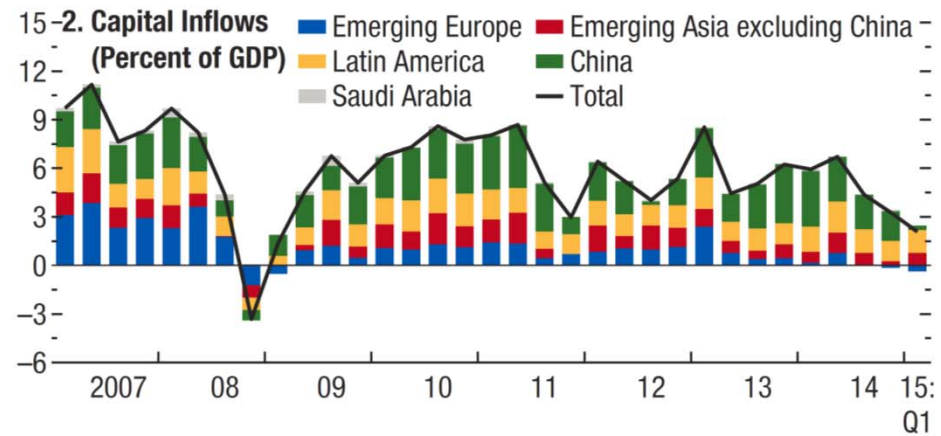
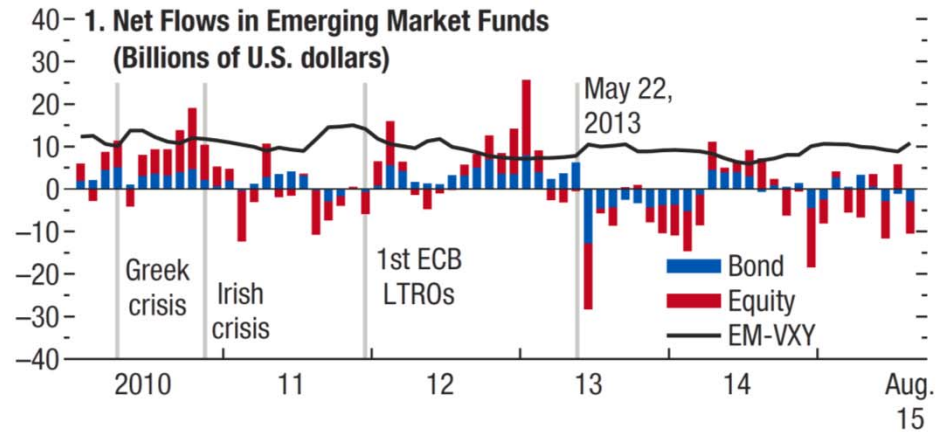


# “Push Factors”



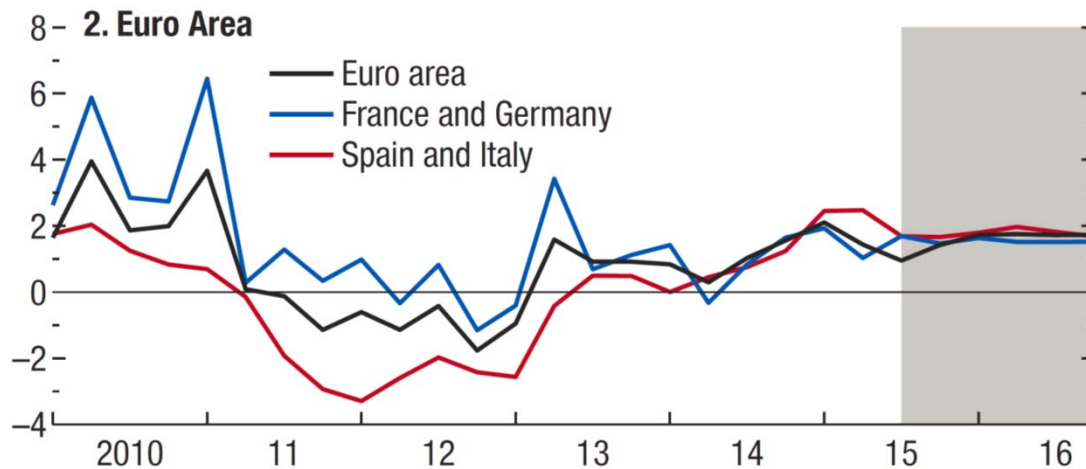
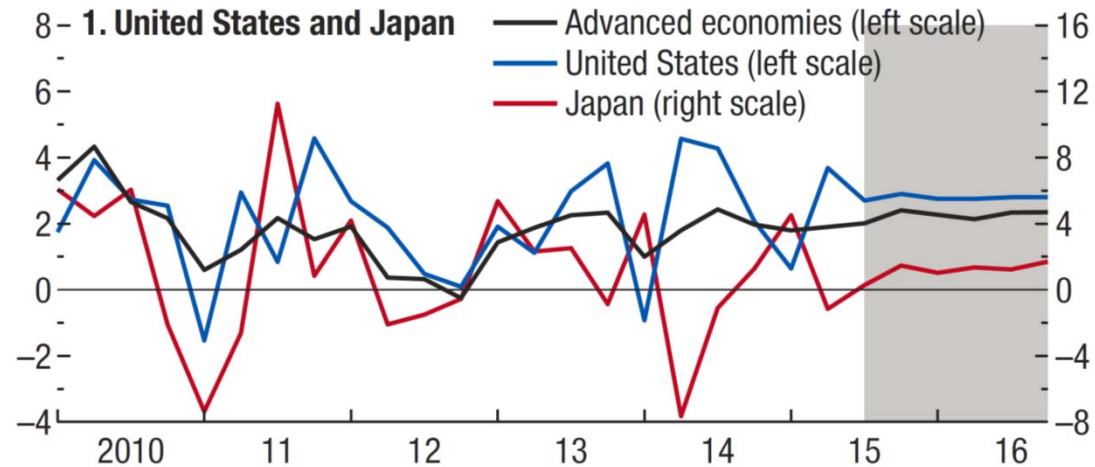


# And Capital Flows Respond



Source: IMF, WEO Oct 2015, Fig 1-12

# The Euro Zone – Stagnant Growth?



Source: IMF, *World Economic Outlook*, October 20145

# WEO Update (Jan. 2016)

**Table 1. Overview of the World Economic Outlook Projections**

(Percent change unless noted otherwise)

	Year over Year						Q4 over Q4		
	Estimates		Projections		Difference from October 2015 WEO Projections 1/		Estimates	Projections	
	2014	2015	2016	2017	2016	2017	2015	2016	2017
<b>World Output 2/</b>	<b>3.4</b>	<b>3.1</b>	<b>3.4</b>	<b>3.6</b>	<b>-0.2</b>	<b>-0.2</b>	<b>3.0</b>	<b>3.4</b>	<b>3.6</b>
<b>Advanced Economies</b>	<b>1.8</b>	<b>1.9</b>	<b>2.1</b>	<b>2.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>1.8</b>	<b>2.2</b>	<b>2.0</b>
United States	2.4	2.5	2.6	2.6	-0.2	-0.2	2.1	2.7	2.5
Euro Area	0.9	1.5	1.7	1.7	0.1	0.0	1.5	1.8	1.6
Germany	1.6	1.5	1.7	1.7	0.1	0.2	1.5	1.7	1.7
France	0.2	1.1	1.3	1.5	-0.2	-0.1	1.3	1.6	1.5
Italy	-0.4	0.8	1.3	1.2	0.0	0.0	1.3	1.3	1.1
Spain	1.4	3.2	2.7	2.3	0.2	0.1	3.4	2.3	2.3
Japan	0.0	0.6	1.0	0.3	0.0	-0.1	1.5	1.2	-0.3
United Kingdom	2.9	2.2	2.2	2.2	0.0	0.0	2.0	2.2	2.2
Canada	2.5	1.2	1.7	2.1	0.0	-0.3	0.6	2.0	2.2
Other Advanced Economies 3/	2.8	2.1	2.4	2.8	-0.3	-0.1	2.0	2.5	3.3
<b>Emerging Market and Developing Economies 4/</b>	<b>4.6</b>	<b>4.0</b>	<b>4.3</b>	<b>4.7</b>	<b>-0.2</b>	<b>-0.2</b>	<b>4.0</b>	<b>4.5</b>	<b>4.9</b>
Commonwealth of Independent States	1.0	-2.8	0.0	1.7	-0.5	-0.3	-3.3	0.1	1.6
Russia	0.6	-3.7	-1.0	1.0	-0.4	0.0	-4.1	0.2	1.4
Excluding Russia	1.9	-0.7	2.3	3.2	-0.5	-0.8	...	...	...
Emerging and Developing Asia	6.8	6.6	6.3	6.2	-0.1	-0.1	6.5	6.2	6.3
China	7.3	6.9	6.3	6.0	0.0	0.0	6.8	6.1	6.0
India 5/	7.3	7.3	7.5	7.5	0.0	0.0	7.3	7.5	7.6
ASEAN-5 6/	4.6	4.7	4.8	5.1	-0.1	-0.2	4.6	4.8	5.5
Emerging and Developing Europe	2.8	3.4	3.1	3.4	0.1	0.0	3.7	5.0	2.6
Latin America and the Caribbean	1.3	-0.3	-0.3	1.6	-1.1	-0.7	-1.5	0.3	2.0
Brazil	0.1	-3.8	-3.5	0.0	-2.5	-2.3	-5.6	-1.6	0.5
Mexico	2.3	2.5	2.6	2.9	-0.2	-0.2	2.5	2.7	3.0
Middle East, North Africa, Afghanistan, and Pakistan	2.8	2.5	3.6	3.6	-0.3	-0.5	...	...	...
Saudi Arabia	3.6	3.4	1.2	1.9	-1.0	-1.0	3.6	0.5	2.3
Sub-Saharan Africa	5.0	3.5	4.0	4.7	-0.3	-0.2	...	...	...
Nigeria	6.3	3.0	4.1	4.2	-0.2	-0.3	...	...	...
South Africa	1.5	1.3	0.7	1.8	-0.6	-0.3	0.4	0.9	2.4

Source: IMF, WEO Update, 19 Jan 2016. <http://www.imf.org/external/pubs/ft/weo/2016/update/01/index.htm>

# WEO Update (Jan. 2016)

<i>Memorandum</i>									
Low-Income Developing Countries	6.0	4.6	5.6	5.9	-0.2	-0.2	...	...	...
World Growth Based on Market Exchange Rates	2.7	2.5	2.7	3.0	-0.3	-0.2	2.3	2.8	3.0
<b>World Trade Volume (goods and services)</b>	<b>3.4</b>	<b>2.6</b>	<b>3.4</b>	<b>4.1</b>	<b>-0.7</b>	<b>-0.5</b>	...	...	...
Imports									
Advanced Economies	3.4	4.0	3.7	4.1	-0.5	-0.4	...	...	...
Emerging Market and Developing Economies	3.7	0.4	3.4	4.3	-1.0	-1.1	...	...	...
<b>Commodity Prices (U.S. dollars)</b>									
Oil 7/	-7.5	-47.1	-17.6	14.9	-15.2	4.8	-42.7	5.3	11.1
Nonfuel (average based on world commodity export weights)	-4.0	-17.4	-9.5	0.4	-4.4	0.1	-19.0	-2.2	0.3
<b>Consumer Prices</b>									
Advanced Economies	1.4	0.3	1.1	1.7	-0.1	0.0	0.4	1.3	1.9
Emerging Market and Developing Economies 4/	5.1	5.5	5.6	5.9	0.5	1.0	7.0	9.9	20.4
<b>London Interbank Offered Rate (percent)</b>									
On U.S. Dollar Deposits (six month)	0.3	0.5	1.2	2.2	0.0	0.0	...	...	...
On Euro Deposits (three month)	0.2	0.0	-0.3	-0.2	-0.3	-0.3	...	...	...
On Japanese Yen Deposits (six month)	0.2	0.1	0.1	0.1	0.0	-0.1	...	...	...

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during November 9–December 7, 2015. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted.

Source: IMF, WEO Update, 19 Jan 2016. <http://www.imf.org/external/pubs/ft/weo/2016/update/01/index.htm>