

Term Paper Assignment (rev'd)

The term paper assignment requires the submission of a 10-page (of text) paper, due by 5PM, ~~Friday, May 6th~~ **Monday, May 9th**, 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. Since the page length is short, the introduction need only be brief.

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. Data are available St. Louis Fed FRED system, and also from IMF's *International Financial Statistics* (IFS) and World Bank *World Development Indicators* (WDI), both accessible via <http://www.disc.wisc.edu> .

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*WSJ* RealTime Economics, CBO Blog, Calculated Risk), and op-eds to get ideas and links to documents, **but do not cite weblog posts as references**. Also, do not cite lecture notes.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: Is a Recession Imminent?

The current US expansion is now nearly seven years old, longer than the post-War average of 58 months. In your analysis, explain what a recession is, and your reasoning. Be sure to address the following points.

- What do the relevant indicators suggest is the current state of the economy?
- What do forward looking indicators (financial, or otherwise) imply for the economy's outlook? In discussing the implications of the forward looking indicators, be sure to explain the economic logic underpinning each approach.
- If you can, present some empirical evidence regarding the likelihood of recession.

Topic 2: 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 3: 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.

One paper that might be of use (including references) is:
<http://www.ssc.wisc.edu/~mchinn/Fiscal%20Multipliers.pdf>

Topic 4: Investment

By some accounts, business fixed investment in the United States has been substantially below the pace expected for the given levels of output.

- Assess whether this perception is correct, in the context of the models we have covered in class. Make an argument for which model or models you think most appropriate.
- Explain whether the level of investment is problematic, and why.
- If the low level of investment is of concern, explain what policies might be used to remedy the problem.

You should rely on the textbook and the readings from the syllabus for source material.

Topic 5: Secular Stagnation

The extended period of slow growth and low real interest rates has induced some to argue that we are in a period of secular stagnation.

- Describe the various definitions of “secular stagnation”
- Explain your preferred definition, and explain whether the data support the hypothesis that the US economy is in a period of secular stagnation.
- If you believe the economy is in a period of secular stagnation, forward policy recommendations (if any) for addressing that problem.

You should refer to the articles in the reading list for basic sources. Other material is likely to be available as this is an issue of current debate; however, you should rely on papers rather than news articles.

Topic 6: The Rise of the Dollar

The rapid ascent of the dollar since mid-2014 has threatened the US economic recovery, and has widened the current account deficit.

- Explain why the dollar has risen since 2014, and remained strong.
- Discuss why the rise of the dollar has had the effects it has on output and trade.
- Examine whether any policy measures should be undertaken if any, and why. Be sure to explain how the measures you propose would achieve the goals you outline.

You should rely upon the textbook and material from newspapers and serials for your course material.

Topic 7: Emerging Market Crises

Since the end of quantitative easing in 2014, pressure has built on emerging market countries. Their currencies have depreciated, and capital inflows have reversed.

- Document the evolution of exchange rates, capital flows, and exchange rate reserves for some selected emerging market economies.
- Using the models outlined in class, explain why these events have occurred. How much of these events are due to domestic (emerging market) factors, and how much to foreign (or “global”) factors.
- Outline the policy options available to policymakers in these emerging market economies.

You should rely upon the readings from the syllabus. The IMF and BIS have papers on the subject.

Topic 8: 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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