Public Affairs 854
Macroeconomic Policy and International Financial Regulation

Prof. Menzie Chinn
La Follette School of Public Affairs
Spring 2010
The Global Landscape

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<td>United States</td>
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<td>8.5 8.8 8.9 9.1 9.1 9.1 9.0 8.8 8.7 8.6</td>
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| World trade growth       | -12.5 6.0 7.7                     | 9.6 5.3 6.4 6.8 7.2 7.6 7.7 8.0 8.1 8.2 | -7.0 7.0 8.0 |

Source: OECD, Economic Outlook, Nov. 2009.
World Trade

World trade volumes are expected to recover

Index, 2005 = 100
America in “recovery”

Output Gap Forecasts

Figure 1.

The GDP Gap, 1949 to 2019

(Percentage of potential gross domestic product)

Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.
CBO, Economic and Budget Outlook, Jan. '09.
Unemployment

Figure 1.
The Unemployment Rate
(Percent)

Source: Congressional Budget Office; Department of Labor, Bureau of Labor Statistics.
Rest of World

Industrial production, index, 2008 = 100, three-month moving averages

Source: OECD, Economic Outlook, Nov. ’09.
Transmission mechanisms

• Financial I: money market freeze
• Financial II: portfolios of MBS, CDOs
• Deleveraging
• Trade
Financial I: Freezing up of the interbank market

Financial I: Commercial paper dried up

A2/P2 lowest grade prime Commercial paper

Source: Federal Reserve Board, posted 19 Jan. 2010
Financial II: Write-downs, capital crunch

Figure 1.9. Realized and Expected Writedowns or Loss Provisions for Banks by Region
(In billions of U.S. dollars unless otherwise shown)

Source: IMF staff estimates.

1Includes Denmark, Iceland, Norway, Sweden, and Switzerland.
2Includes Australia, Hong Kong SAR, Japan, New Zealand, and Singapore.

America: No longer consumer of last resort

Log real imports of goods ex.-oil, and real consumption. Source: BEA, Dec. '09), NBER
Responses

• Fed interventions in money markets, swaps
• Quantitative easing
• TARP
• Fiscal stimulus plans?
• Euro area, UK, US
• Japan
• China
Fed interventions

- CPFF: Commercial Paper Funding Facility
- PDCF: Primary Dealer Credit Facility
- TAF: Term Auction Facility
- ABCP MMF: Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility

J. Hamilton, Econbrowser, Jan. 17, 2010
Fiscal stimulus

- US: Another 2-6% on top of 1%
- Germany: 2%
- Japan: 1.2% (cumulative)
- China:
  - 2% central gov p.a.
  - 2% provincial p.a.
  - SOE’s, etc.
  - stimulus via bank lending
US Stimulus Plans

Table 7. Estimates of the Effects of the ARRA on GDP Growth

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<tr>
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<td>James Glassman, J.P. Morgan Chase</td>
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<td>+2.0</td>
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Sources: See text for details.
Note: a. Second- and third-quarter effects show the average for these quarters.

Looking ahead

• Deleveraging implies easy credit is over for…
• Countries as hedge fund (Iceland)
• Central Europe with BoP issues (Hungary)
• Rebalancing is key
Current Account Imbalances