

Term Paper Assignment

The term paper assignment requires the submission of a 20-page paper, due by 5PM, Friday, December 17th, 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. Unlike policy papers you might have written in the past, you do not need to make a specific recommendation; the paper could be purely analytical in nature.

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(Econbrowser, WSJ RealTime Economics, CBO Blog, Calculated Risk), and op-eds to get ideas and links to documents, **but do not cite weblog posts as references.** Also, do not cite lecture notes.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 working papers), and NBER working papers.

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 your discussion of remedies fit in with the analysis you present (if you propose such remedies).

Topic 1: The Usefulness of the Expectations Hypothesis of the Term Structure

The expectations hypothesis of the term structure (both narrowly defined and including the liquidity premium) is a key concept in finance. Your paper should examine some or several of the following questions:

- What is the empirical evidence regarding the usefulness of the expectations hypothesis of the term structure (EHTS) for explaining future spot interest rates?
- How well does the EHTS explain future recessions in the United States?
- How well does the EHTS explain future economic activity across countries?

A suggested background paper/source: http://www.ssc.wisc.edu/~mchinn/Kucko_Chinn_Yield_Curve.pdf

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. Your paper should examine some or several of the following questions:

- How well does this model explain the actual evolution of Treasury bond yields in the United States?
- What is the cross country evidence in favor of higher government debt resulting in higher interest rates?
- Should one control for demand for borrowing driven by economic activity?
- Should expected debt matter as well as current debt?

A suggested background paper/source: <http://www.ssc.wisc.edu/~mchinn/intratepap7.pdf>

Topic 3: Does Bank Lending Cause Economic Growth

How has the monetary transmission process changed over time? Your paper should examine one or several of the following questions:

- What is the evidence in favor the traditional channel on economic activity (via the interest rate, the exchange rate) versus nontraditional channels (such as bank lending, financial accelerator).
- Is there empirical evidence that the change in bank lending causes economic growth?
- Is there a difference in the relationship between the strength of these channels across countries?

A suggested background paper/source: <http://www.nber.org/papers/w15879>

Topic 5: Causes of the Asset Boom and Bust of the 2000's

There are several different interpretations of the asset boom that preceded the current recession. They include monetary (lax Fed policy propagated to the rest-of-the-world), excess saving flow from East Asia and oil exporters, and lax regulation/financial innovation. Your paper should examine one or both of the following questions:

- What are the theoretical models underpinning each explanation?
- What is the empirical evidence on each competing view?

In your analysis, use of data, and support from econometric studies, will be essential. In-depth studies from the Bank for International Settlements, the IMF *WEO* and *GFSR*, as well as working papers, will be useful.

Additional suggested background papers/sources:

http://www.ssc.wisc.edu/~mchinn/imbalances_paper.pdf ;
http://www.stanford.edu/~johntayl/2010_pdfs/Origins_and_Policy_Implications_of_the_Crisis.pdf ;
http://www.ssc.wisc.edu/~mchinn/chinn_frieden_debtcrisis_2009.pdf

Topic 6: Post-Crisis Financial Regulation

Discuss the rationale for the various components of the Dodd-Frank financial regulation legislation, as well as the Basel III accords. Your paper should examine one or several of the following questions:

- What are the major components of the legislation?
- What aspects of the regulatory framework still need to be implemented?
- Will the measures “work” to reduce the incidence and costs of financial crises?
- Will there be any negative consequences of the legislation and/or Basel III accords?

Suggested background papers/sources:

http://www.brookings.edu/papers/2010/0712_regulators_elliott.aspx ,
http://www.brookings.edu/papers/2010/0726_basel_elliott.aspx