Policy Responses to the Great Recession  
(provisional, subject to revision)

1. INTRODUCTION

This course will examine the hypotheses underlying the origins and propagation of the Great Recession of 2007, and the policy responses that have occurred along a variety of dimensions. The candidate causes include lax monetary policy, the “saving glut”, deregulation, securitization and the widespread use of derivatives, the activities of the Government Sponsored Enterprises (“Fannie Mae” and “Freddie Mac”), among others.

The discussion of responses will include the conduct of monetary policy and fiscal policy, the appropriateness of financial regulatory policy, the harmonization of international financial policy and trade policy. Other policies not typically thought to be related to the workings of the macro economy (housing, energy, sectoral/industrial policy, e.g., automobiles) will also be examined.

Prerequisites: Macroeconomics (either Econ 302 or Public Affairs 854), or consent of instructor. Economics 330 (“Money and Banking”) will be useful.

2. OFFICE HOURS

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Updated information will be posted on the course website,  

3. SCHEDULE AND READINGS

There is no textbook. However, for background, one can refer to Caves, Frankel and Jones, World Trade and Payments, 10th Edition (Addison-Wesley Longman, 2006), Hall and Papell, Macroeconomics: Economic growth, fluctuations, and policy, 6th Edition (Norton, 2005) or any other standard intermediate level macroeconomics textbook. Required readings will be assigned during the semester from the Web, as well as a book manuscript written by myself and Jeffry Frieden. You will also be expected to refer to the following weblog for current macroeconomic commentary: http://www.econbrowser.com.
1. Review

Notes on IS-LM

Notes on Transactions and Portfolio Crowding Out

2. Background


3. Causes


Chinn and Frieden, *The Lost Decade*, Chapters 2 and 3.

4. Financial complications

Chinn and Frieden, Chapter 4.


5. **Recession**


The Financial and Economic Crisis Interpreted in a CC-LM Model

IMF, *World Economic Outlook, April 2009, Chapter 3.*

6. **Macro policy responses**

6.1 **Fiscal Policy**

CBO, *Options for Responding to Short-Term Economic Weakness* (January 2008).


6.2 **Monetary Policy**


7. **Financial Regulation**
BIS, “Chapter VII. Risks and opportunities: towards a fail-safe financial system, BIS Annual Report (June 29, 2009).

Mathias Dewatripont, Xavier Freixas, and Richard Portes, editors, Macroeconomic Stability and Financial Regulation: Key Issues for the G20 (CEPR, 2 March 2009), pp. 91-.

6. Trade Policy and Industrial Policy


8. Long term prospects


Chinn and Frieden, The Lost Decade, Chapter 8.

4. GRADING

Letter grading is determined as follows:

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<thead>
<tr>
<th>Percentage</th>
<th>Component</th>
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<tr>
<td>20%</td>
<td>Problem sets (x2)</td>
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<tr>
<td>80%</td>
<td>Term paper</td>
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Late assignments will not be accepted for credit. Although the problem sets do not constitute a large portion of the grade, I strongly encourage you to do the assignments in a timely and serious fashion. The problem sets provide valuable information regarding your grasp of the concepts.

5. THE TERM PAPER

A 20 page term paper will be due at the end of the semester. You will have latitude in terms of the choice of topic. However, I will be able to give you more guidance on certain topics than others. Additional details regarding this assignment, along with suggested readings, will be provided later in the term.