Administrative Issues

• Course website:  
  http://www.ssc.wisc.edu/~mchinn/web442_s15.html

• OH: MW 1:30-2:30, 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 2/25, 4/8
  - Paper due on Fri, 5/8
- 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, 2014Q3 final, CBO, Budget and Economic Outlook (February 2014), NBER.
Secular Stagnation: Excess Saving?

Ten year Treasurys

Ten year Treasurys minus expected inflation

Ten year TIPS
A Puzzle

Debt to GDP, %

Ten year Treasurys, %

Inflation adjusted, %
The Fiscal Policy Debate

Log GDP bn. Ch.09$, SAAR

Potential GDP

Actual

low multipliers

Midpoint multipliers

high multipliers

www.econbrowser.com
The Investment Puzzle

Gross nonresident fixed investment

Net nonresidential fixed investment

bn. Ch.2009$, SAAR
Investment and Uncertainty

Log nonresidential fixed investment to GDP [left scale]

Policy uncertainty [right scale]
Rise of the Dollar

Log trade weighted value of US dollar (broad basket) 2005M01=0

Nominal
Real

econbrowser.com
The Dollar’s Rise in Perspective

Log real value of US dollar, 2005Q1=0

- broad CPI-deflated
- ULC-deflated

Source: econbrowser.com
The Dollar and Net Exports

Log real value of $, [left scale]

Net exports to GDP [right scale]
ex.-oil

Financial Crises: Russia

Reserves ex-gold [left scale]

MH17 shootdown

USD/RUB [right scale]
Emerging Market Issues

Emerging and retreating
Currencies against the dollar
September 1st 2013=100

1

GDP and consumer prices
% increase on a year earlier

2

[Graph showing currency values and GDP consumer prices]

Sources: Thomson Reuters; Haver Analytics; Economist Intelligence Unit; The Economist

Economist (Nov. 8, 2014).
“Push Factors”

![Graph showing real 10-year yields and VIX (divided by 10) from 2007 to 2014. Key events include the Lehman bankruptcy and the "taper tantrum".](image-url)
And Capital Flows Respond

Chart 21
Total Non-Resident Portfolio Flows
$ billion; estimates as of October 27, 2014

Source: IIF.
(Some) EM Currencies Fall

Bernanke's speech
The Euro Zone – Another Recession?

Source: OECD, *Economic Outlook*, November 2014
## WEO Update

Table 1. Overview of the World Economic Outlook Projections

(Percent change unless noted otherwise)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
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Concepts/Definitions

- GDP
- Real versus nominal
- Price level, inflation
- Money
- Interest rates
GDP

- Sum of value of all goods and services produced within a given time period (usually a year or a quarter)
- If quarterly, usually adjusted up to yearly rates
- GDP = C + I + G + (Ex – Im)
- All these are “final” goods and services
Real vs. Nominal

• Nominal values are expressed at values recorded. GDP is just all the values of items spent on, added up.

• Real values control for the general price level, to get in principle “quantities”.

• Nominal Value/Price index = Real Quantity

• Nominal Price/Price index = Relative Price
Nominal vs. Real

Source: BEA, 2014Q3 final release
Relative Price (of Oil)

Oil price, WTI

2013$/bbl

$/bbl

OILPRICE

OILPRICE*100/(CPILFESL/2.338061)
Price Level vs. Inflation

• Let $P =$ price level
• Inflation $= \text{percent}$ rate of change of price level
• Standard definition: $\pi_t = \frac{(P_t - P_{t-1})}{P_{t-1}}$ (on annual basis)
• Sometimes, a continuously compounded definition is used:
• $\pi_t = \ln(P_t) - \ln(P_{t-1})$
• Standard variables: CPI, core CPI, PCE
Inflation: Total vs. Core

\[(\text{CPIAUCSL}/\text{CPIAUCSL}(-1))^{12}-1\]
\[(\text{CPILFESL}/\text{CPILFESL}(-1))^{12}-1\]
Inflation: M/M vs. Y/Y

(CPIAUCSL/CPIAUCSL(-1))^12-1
(CPIAUCSL/CPIAUCSL(-12))^1-1

CPI inflation, annualized

y/y
m/m

94 96 98 00 02 04 06 08 10 12 14
Interest Rates

Fed funds
Three month Treasury
Ten year Treasury

Moody's Baa

FEDFUNDS  TB3MS
GS10  BAA