

Term Paper Assignment

The term paper assignment requires the submission of a 10-page double spaced paper (10 pages pertains to *text* of paper, does not include graphs/tables/references), due by 11PM, Wednesday, December 15th, 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, paper title, abstract, and contact relevant information (not included in the page count) should be included.

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 must 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certain weblogs (Econbrowser, CBO Blog, Calculated Risk), and op-eds to get ideas and links to documents, **but do not cite weblog posts as references.** Also, do not cite lecture notes.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 (latter should be accessible from any computer 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 your discussion of remedies fit in with the analysis you present (if you propose such remedies).

When you submit the paper, title the file using this format: "TITLE_LASTNAME". For instance, if I were to submit a paper on Topic 1, the filename would be "EXPECTATIONS_CHINN".

(Note on references: You can use any way to reference sources, but be consistent (if e.g., name (year), and listed in references using Chicago, use Chicago throughout).

Topic 1: The Expectations Hypothesis of the Term Structure and the Business Cycle **[EXPECTATIONS]**

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?

- Has the decrease in long term interest rates been due primarily to low expected future short term rates, or a decrease in the term premium?
- How well does the explain future recessions in the United States and/or across countries?
- Should one expect the EHTS (augmented with a term premium) to predict recessions and growth in a period when quantitative easing has occurred, and/or expected inflation is very low or negative.

A suggested background paper/source: http://www.ssc.wisc.edu/~mchinn/Chinn_Kucko_IF2015.pdf This paper topic is amenable to empirical work.

Topic 2: Is There a Housing Bubble? [HOUSING]

Is there a current housing bubble? Compare and contrast current conditions against those that the housing boom that preceded the last 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?
- And do such explanations apply to current conditions?

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. Some references are also included in Chinn and Frieden, *Lost Decades*.

Additional suggested background papers/sources:

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

Topic 3: Post-Crisis Financial Regulation [FINREG]

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?
- 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?
- What rollbacks of the post-2008 reforms have been implemented?

Suggested background papers/sources:

<http://www.princeton.edu/~markus/research/papers/Geneva11.pdf>

<http://www.voxeu.org/content/dodd-frank-one-year>
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.27.4.45>

Some additional references are also included in Chinn and Frieden, *Lost Decades*.

4: Monetary Policies in an Uncertain Time [MONETARY]

Discuss the potential challenges involved in conducting monetary policies, both conventional and unconventional, in the United States:

- What measures have been implemented and how was the exit made?
- What has been the likely effect of the measures implemented thus far?
- How should inflation vs. output be considered in the new environment?
- Should the exit involve slow or rapid reduction in the central bank(s) balance sheet(s)?
- What should be the policy rate or rates (e.g., Fed funds rate) going forward?

Suggested background papers/sources:

<http://research.stlouisfed.org/publications/review/13/01/Fawley.pdf>
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1576596
http://www.ssc.wisc.edu/~mchinn/monetarypolicy_postcrisis_JEP2015.pdf

Also see various publications in the Federal Reserve System.

Topic 5: Should Monetary Policy Target Asset Booms? [TARGET]

From the mid-1980s until the financial crisis of 2007, most central banks in industrial countries have followed some version of the Taylor rule, wherein the policy interest rate (in the US, the Fed funds rate) is response to changes in inflation and the output gaps. Should this approach be amended? In your paper, you might wish to discuss:

- What are the variants of the Taylor rule?
- Did deviation from the Taylor rule cause the housing boom in the United States?
- What would be the macroeconomic and financial implications of implementing the Taylor rule as set forth by John Taylor.
- Would modification of the Taylor rule to incorporate an asset price address the problem of financial crises? If so, what asset price should be targeted, and how?

Suggested background papers/sources:

<http://onlinelibrary.wiley.com/doi/10.1111/1468-2362.00092/pdf>
<http://fic.wharton.upenn.edu/fic/papers/11/11-39.pdf>
http://www.ssc.wisc.edu/~mchinn/Allen_Rogoff_assetprices.pdf [new link 12/2]

Topic 6: The Next Financial Crisis [NEXT]

Will there be another financial crisis in the next three years? If so, in which market(s) will the crisis unfold. In your paper:

- Identify the vulnerable sector(s)
- Discuss why you think the sector(s) is (are) vulnerable. How do you define “a crisis”?
- What will be the economic consequences of the indicated crisis?
- Can monetary, fiscal, or regulatory policy mitigate the likelihood of a financial crisis, should it occur?

Suggested background papers/sources:

IMF, *Global Financial Stability Reports*.

Federal Reserve Board, *Financial Stability Report*, Nov. 2021

Committee of the Global Financial System reports <https://www.bis.org/cgfs/>

E435_paper_f21
17.11.2021 rev 2.12.2021