

Economics 442
Macroeconomic Policy

Lecture 3

9/14/2020

Instructor: Prof. Menzie Chinn

UW Madison

Fall 2020

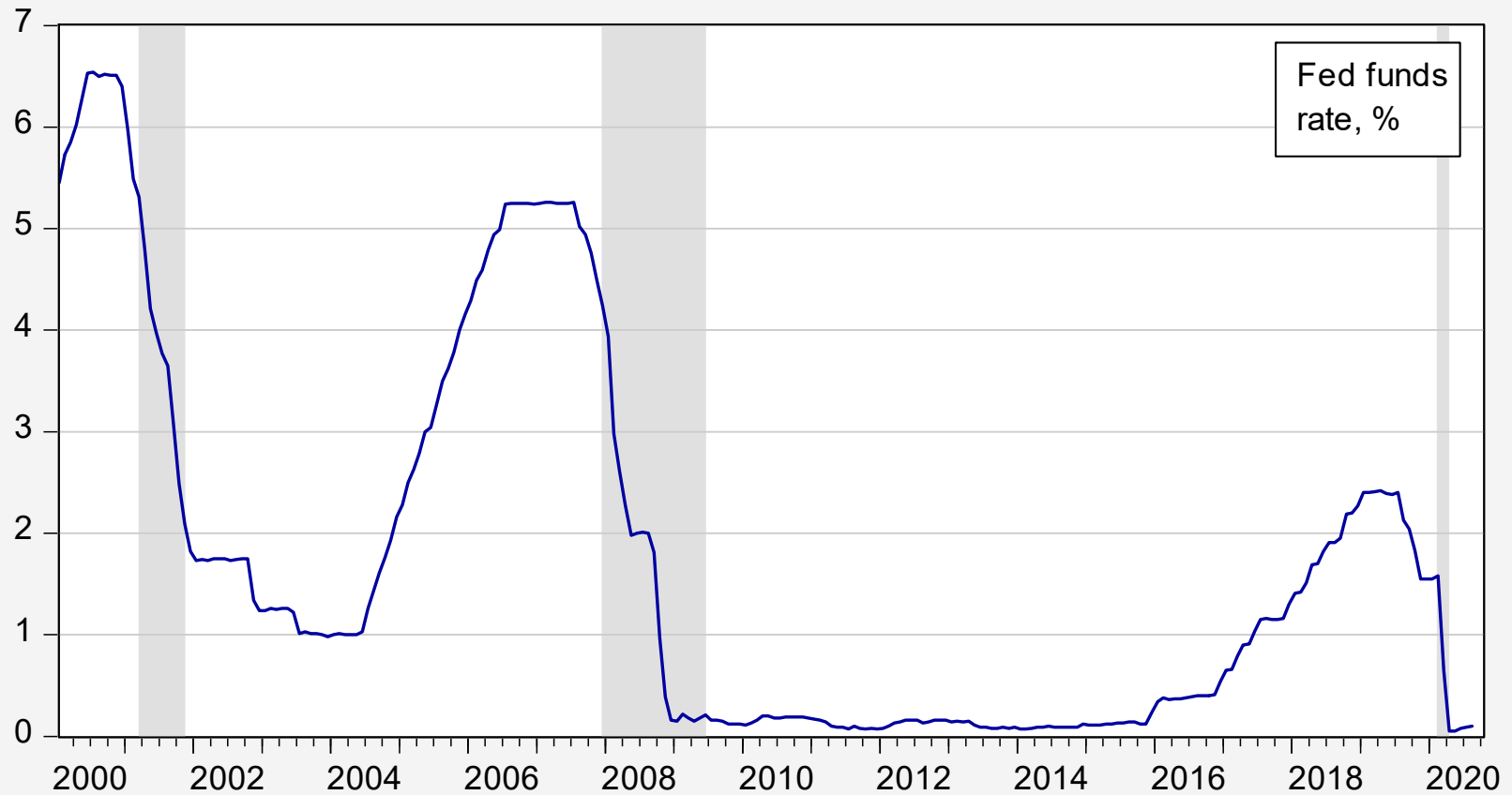
News Item #1

***WaPo*: ...hopes fade for any more congressional support**

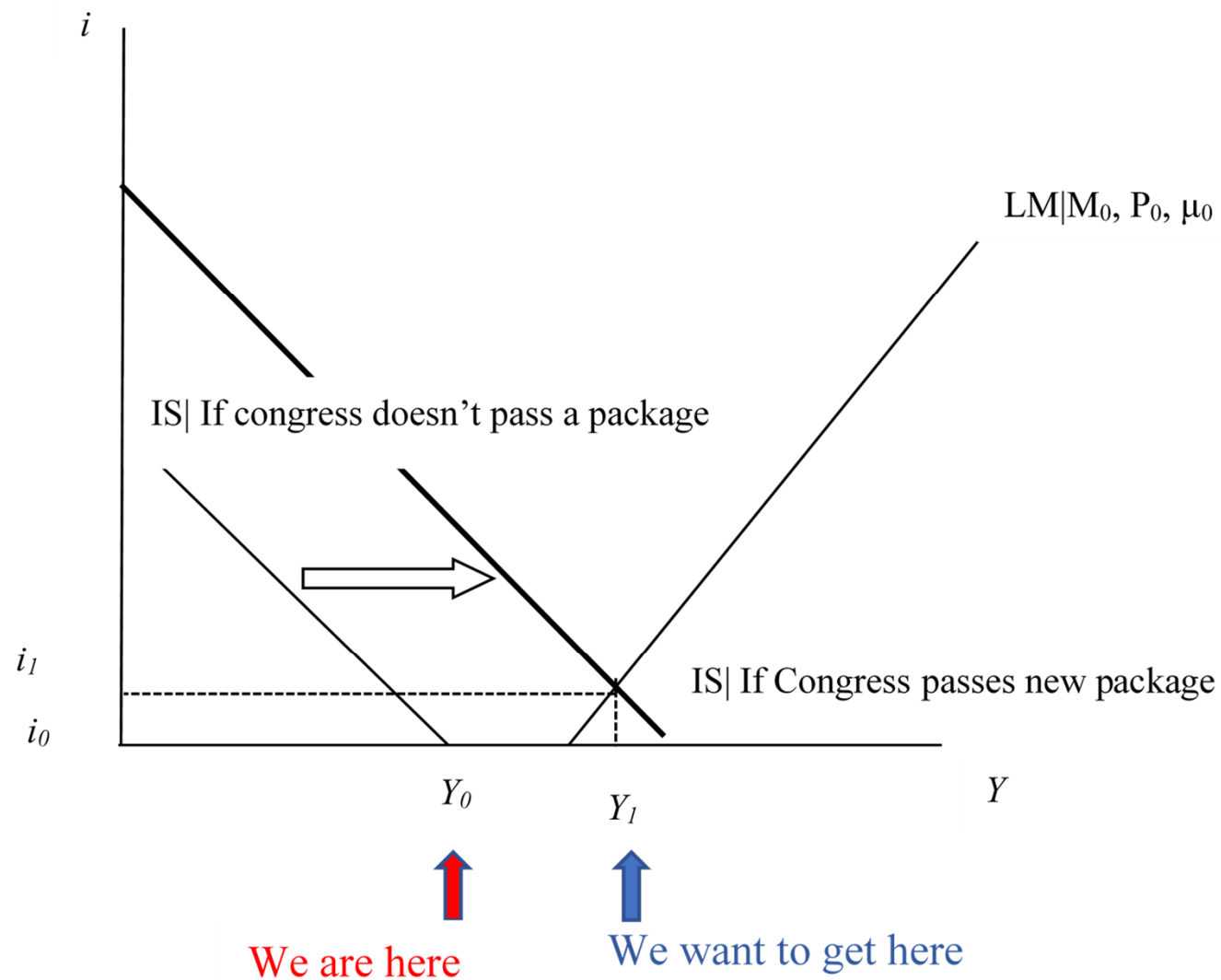
“Democrats blocked a pared-down GOP coronavirus relief bill in a bitterly disputed Senate vote Thursday, leaving the two parties without a clear path forward to approve new economic stimulus before the November elections.”

<https://www.washingtonpost.com/us-policy/2020/09/10/senate-coronavirus-economic-relief-bill/>

We're In a Liquidity Trap



Fiscal Policy in a Liquidity Trap



News Item #2

Budget Deficit Explodes

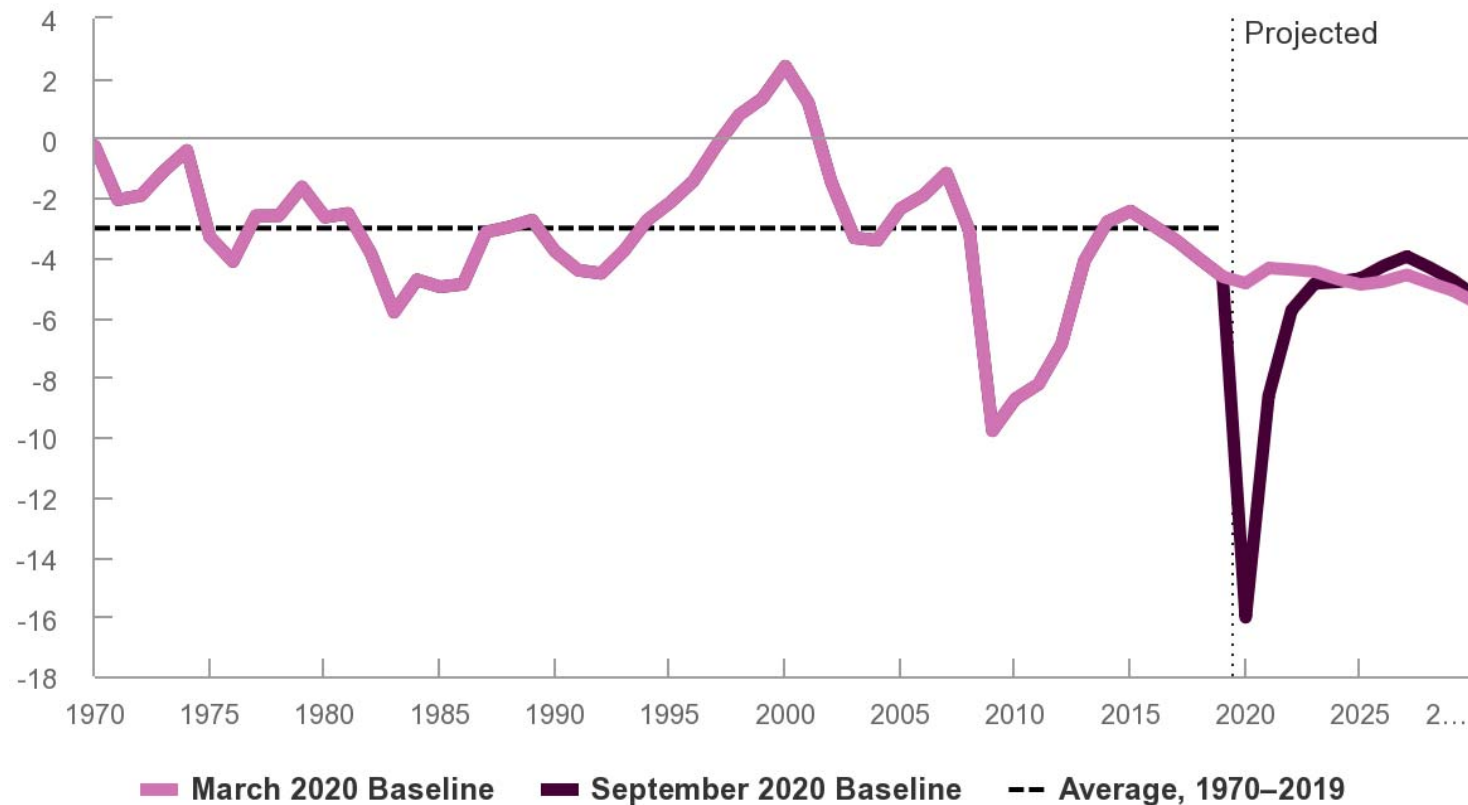
CBO Budget Update, September 2020

The deficit currently estimated for 2020 is more than three times what CBO projected in March, mostly because of the economic disruption caused by the 2020 coronavirus pandemic and the enactment of legislation in response.

The Budget Deficit Expands

Deficits in CBO's September 2020 Baseline Versus Its March 2020 Baseline

Percentage of Gross Domestic Product

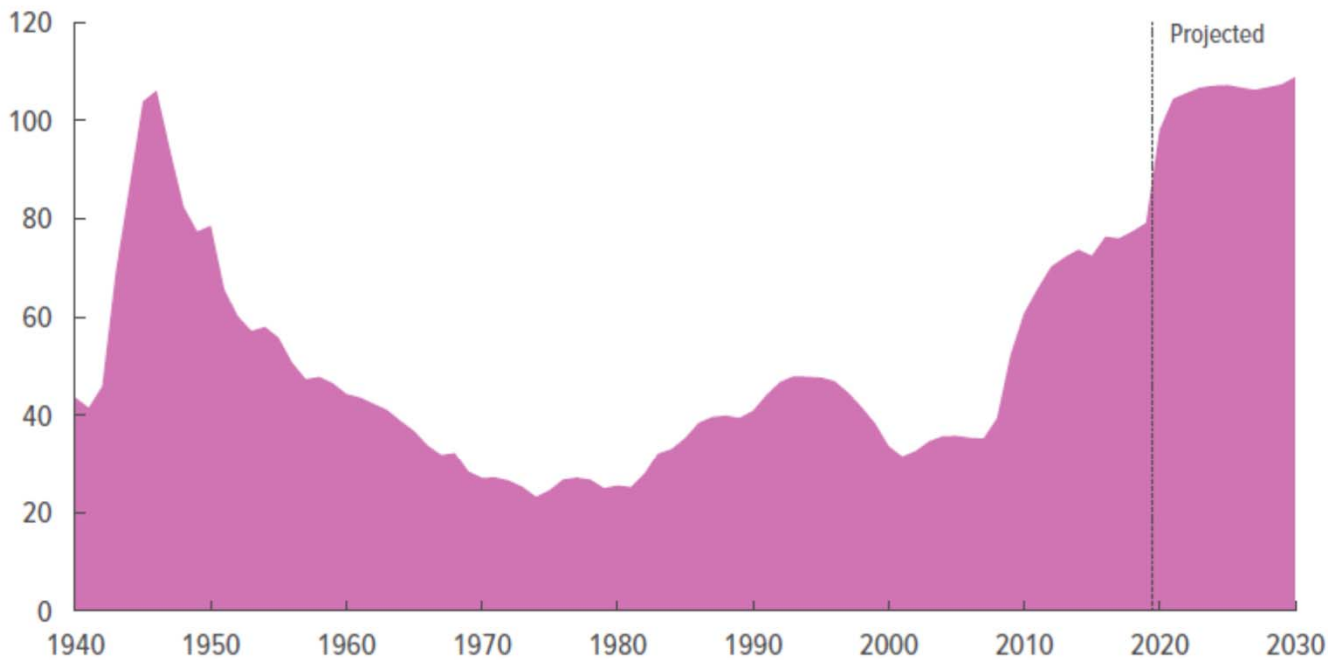


Implies Jump in Government Debt

Figure 3.

Federal Debt Held by the Public

Percentage of Gross Domestic Product



Federal debt has increased sharply this year and is projected to increase in most years over the coming decade. Beginning in 2023, debt would be higher than at any other time in the nation's history.

Source: Congressional Budget Office.

One Shortcoming: IS-LM Model

- Deficits don't matter
- Government debt doesn't matter
- We'll remedy this deficiency in the next section