

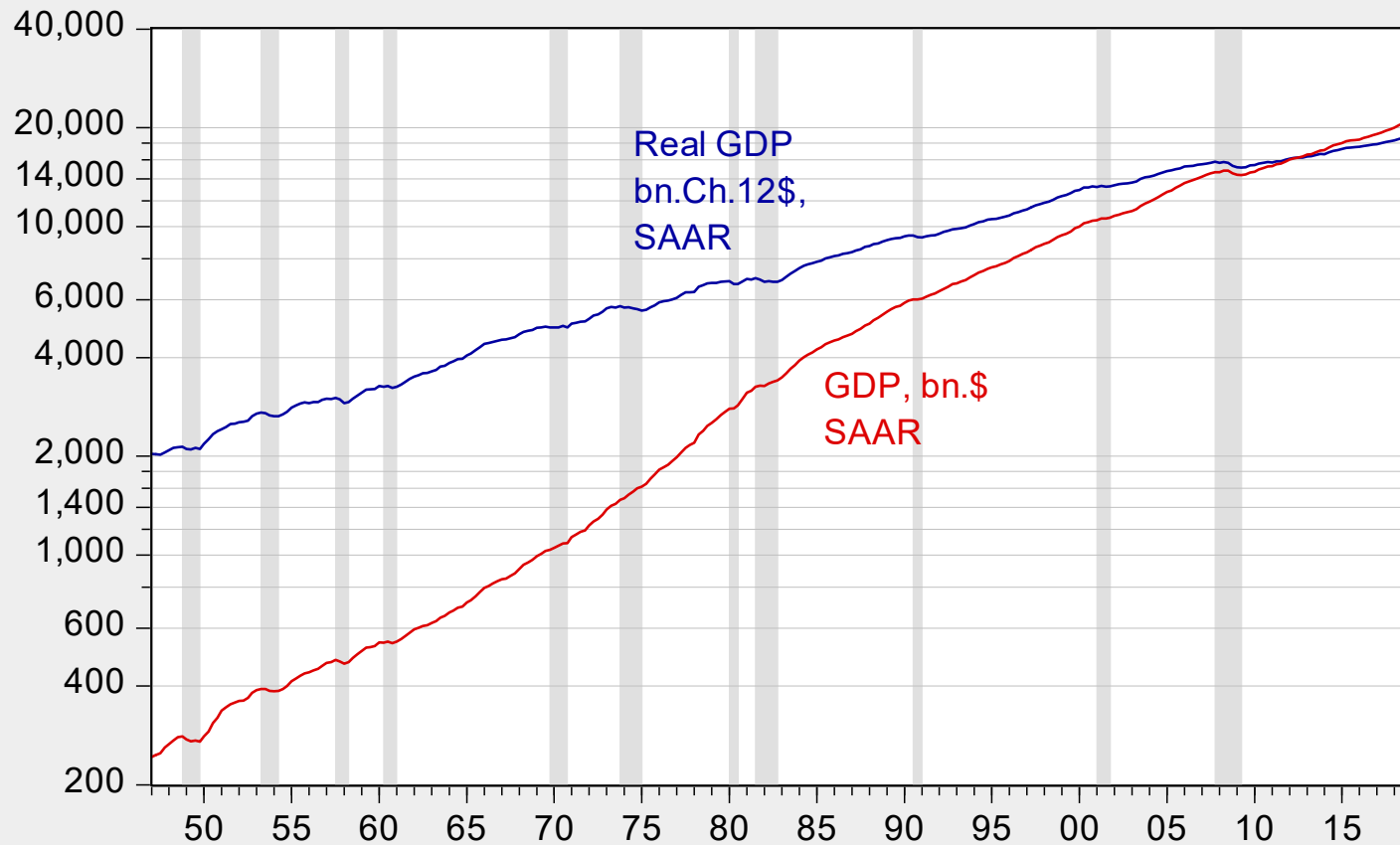
Economics 442

Macroeconomic Policy

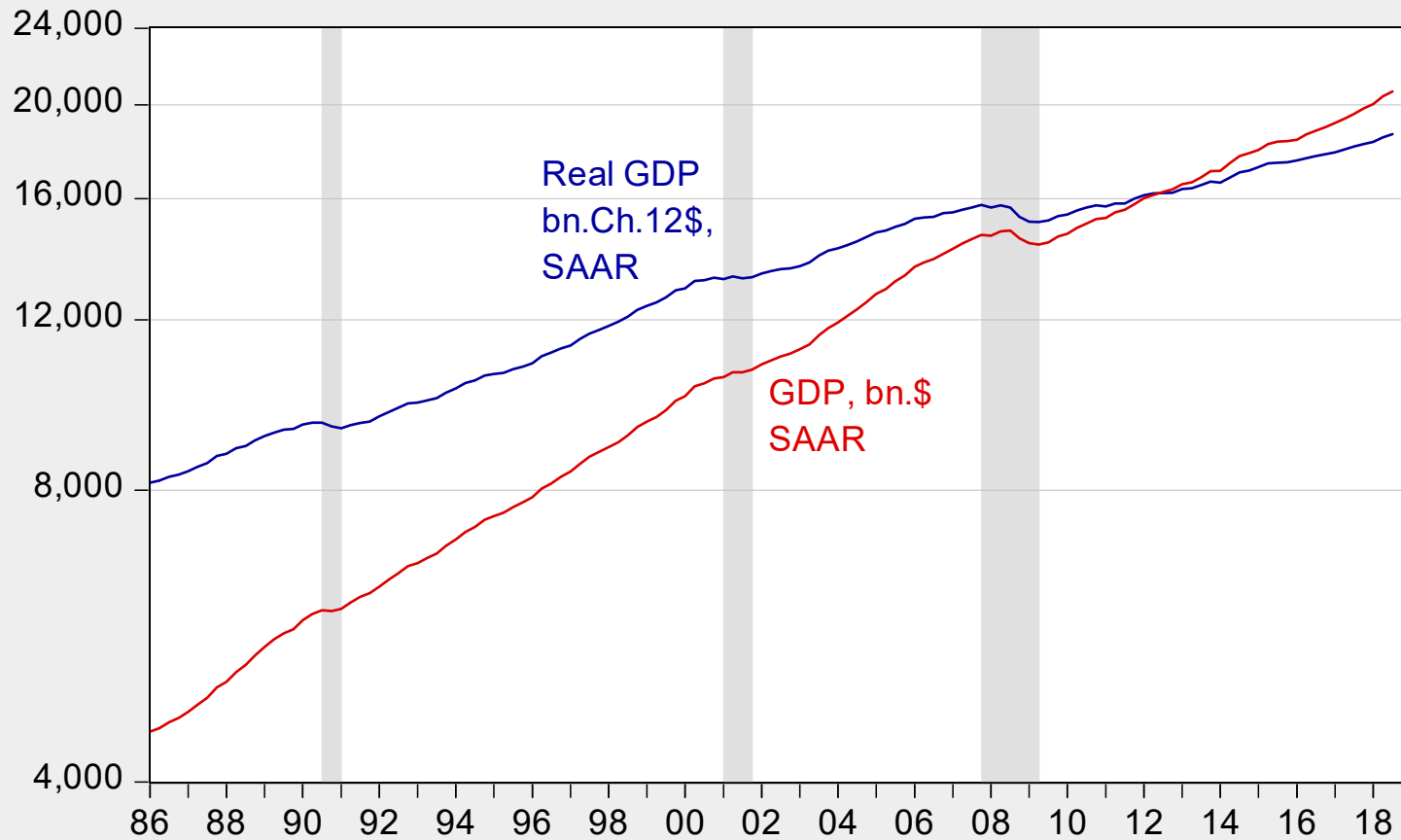
Lecture 9
2/20/2019

Instructor: Prof. Menzie Chinn
UW Madison
Spring 2019

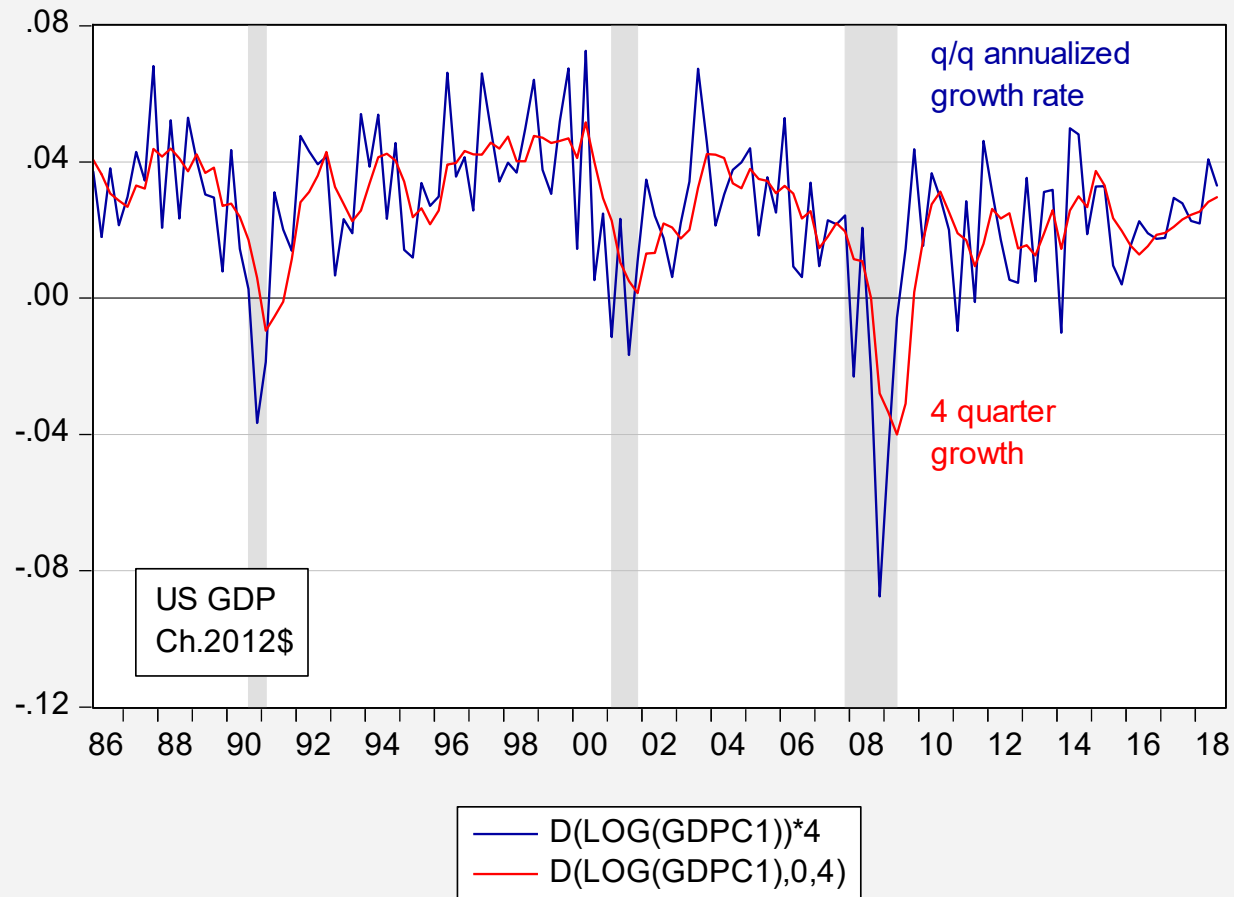
What's a Recession?



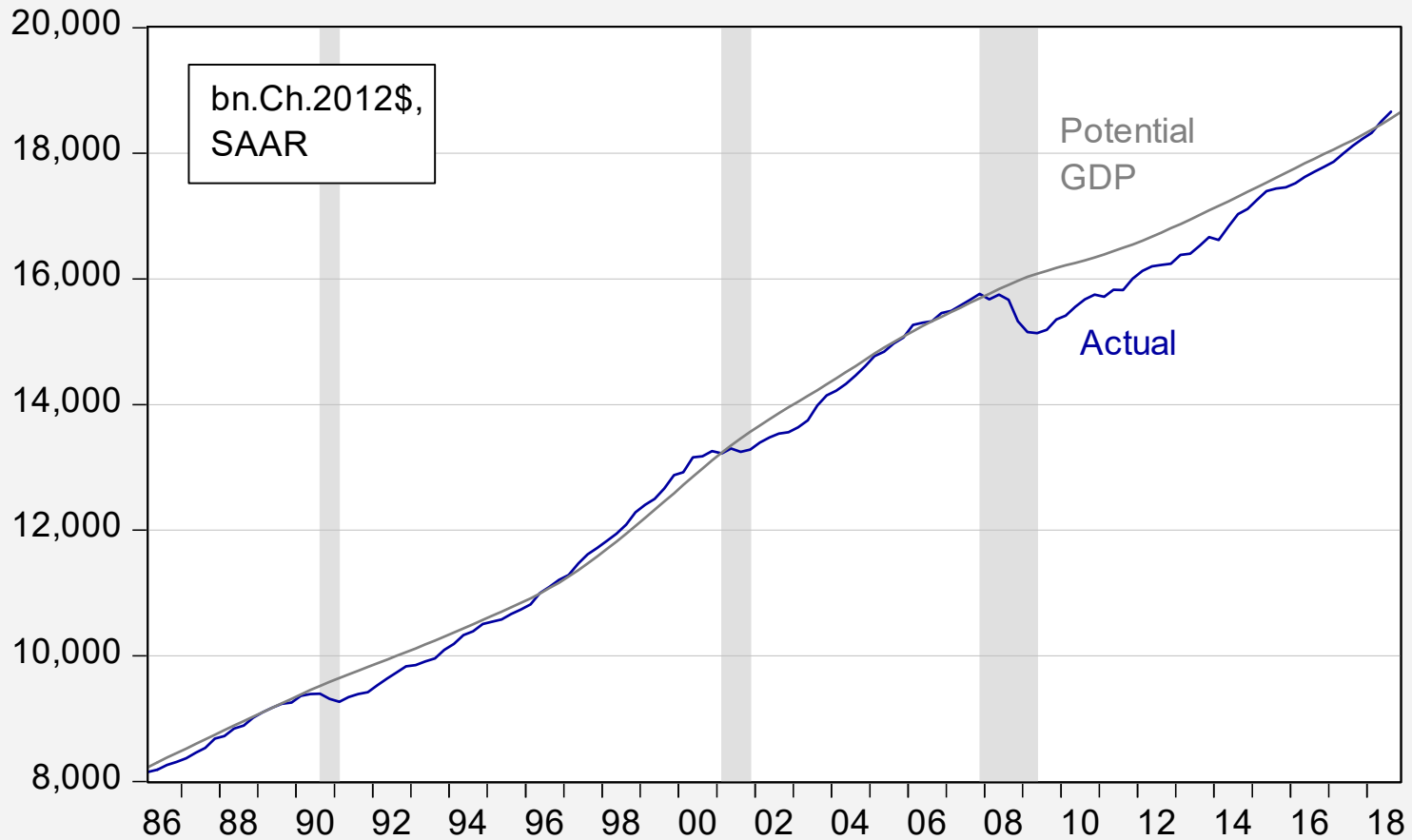
What's a Recession?



What's a Recession: Growth Rates



What's Not a Recession: Negative Output Gap

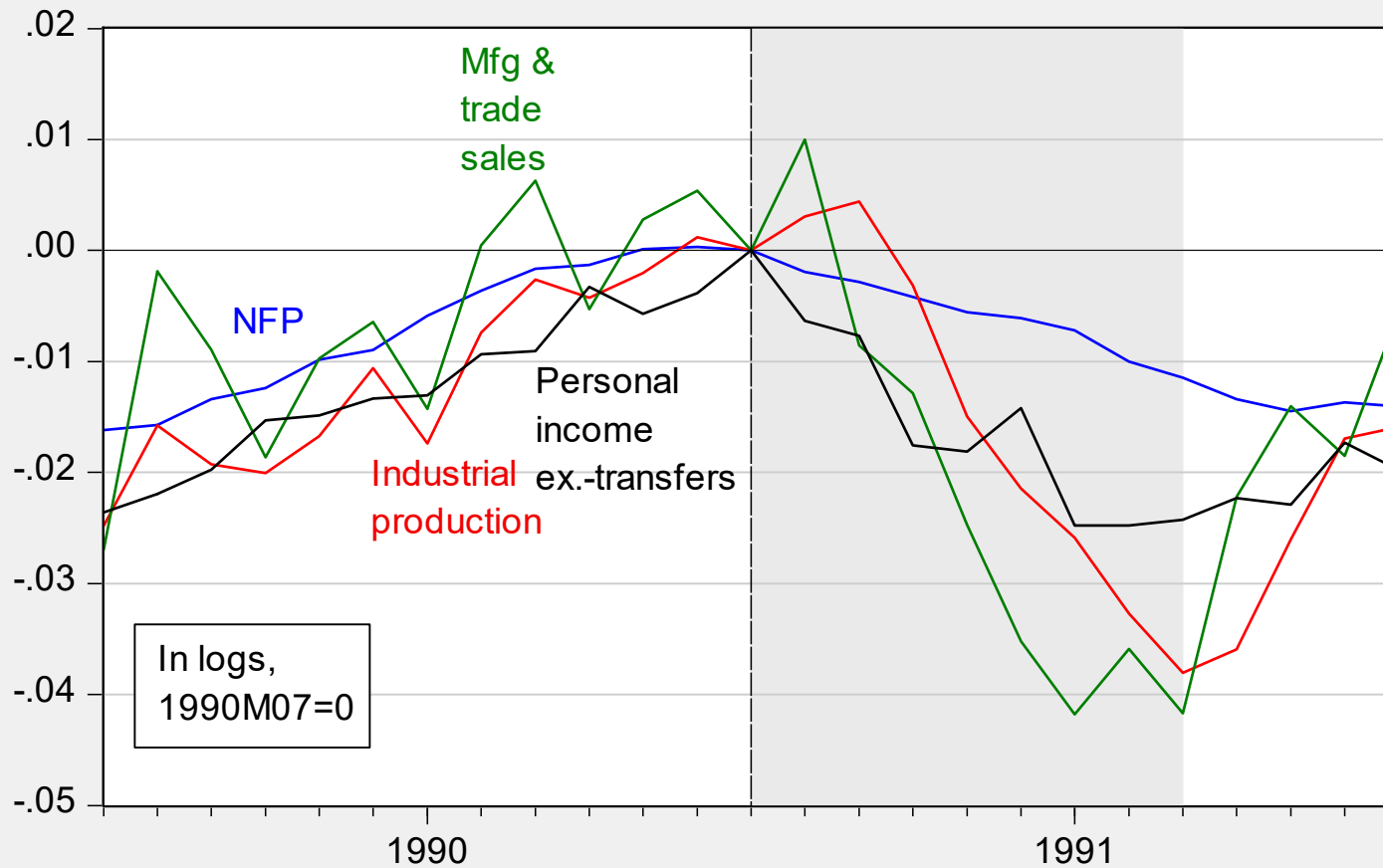


NBER Definition of a Recession

A recession is a period of falling economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. The trough marks the end of the declining phase and the start of the rising phase of the business cycle. Economic activity is typically below normal in the early stages of an expansion, and it sometimes remains so well into the expansion.

<https://www.nber.org/cycles/sept2010.html>

1990-91 Recession

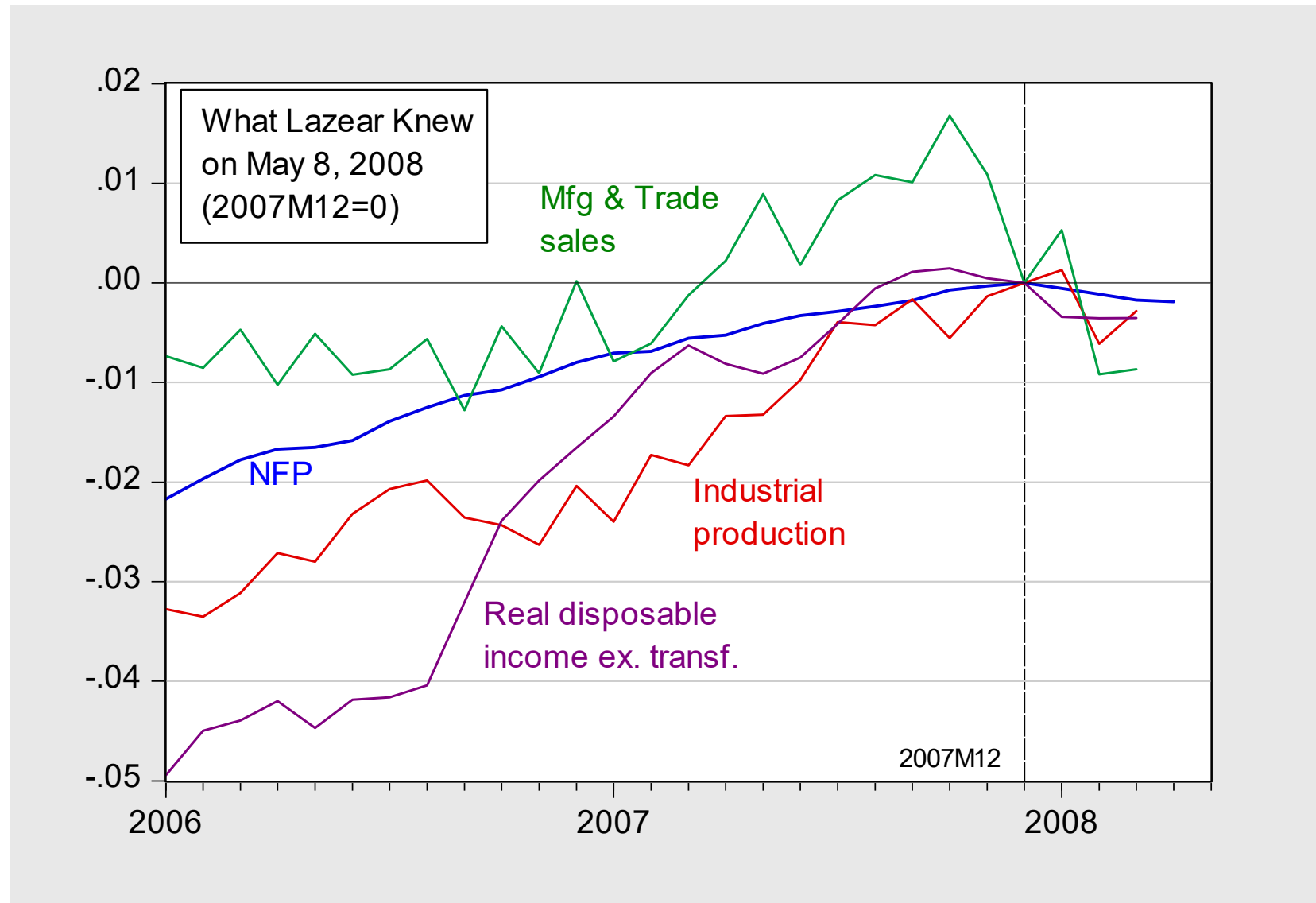


Recessions Are Hard to See in Real Time

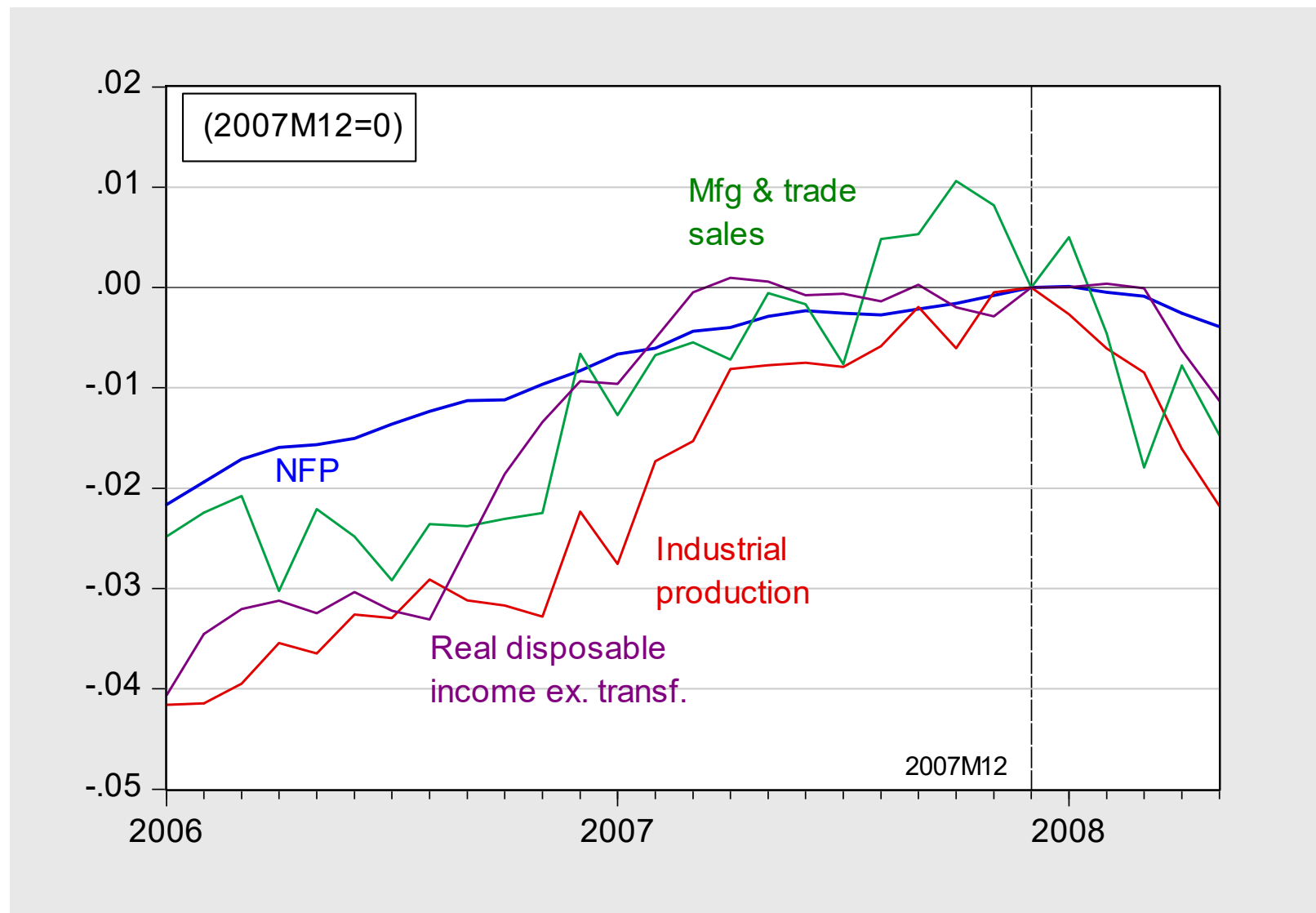
“The data are pretty clear that we are not in a recession.”

-- White House Council of Economic Advisers Chairman Ed Lazear, Wall Street Journal, May 8, 2008

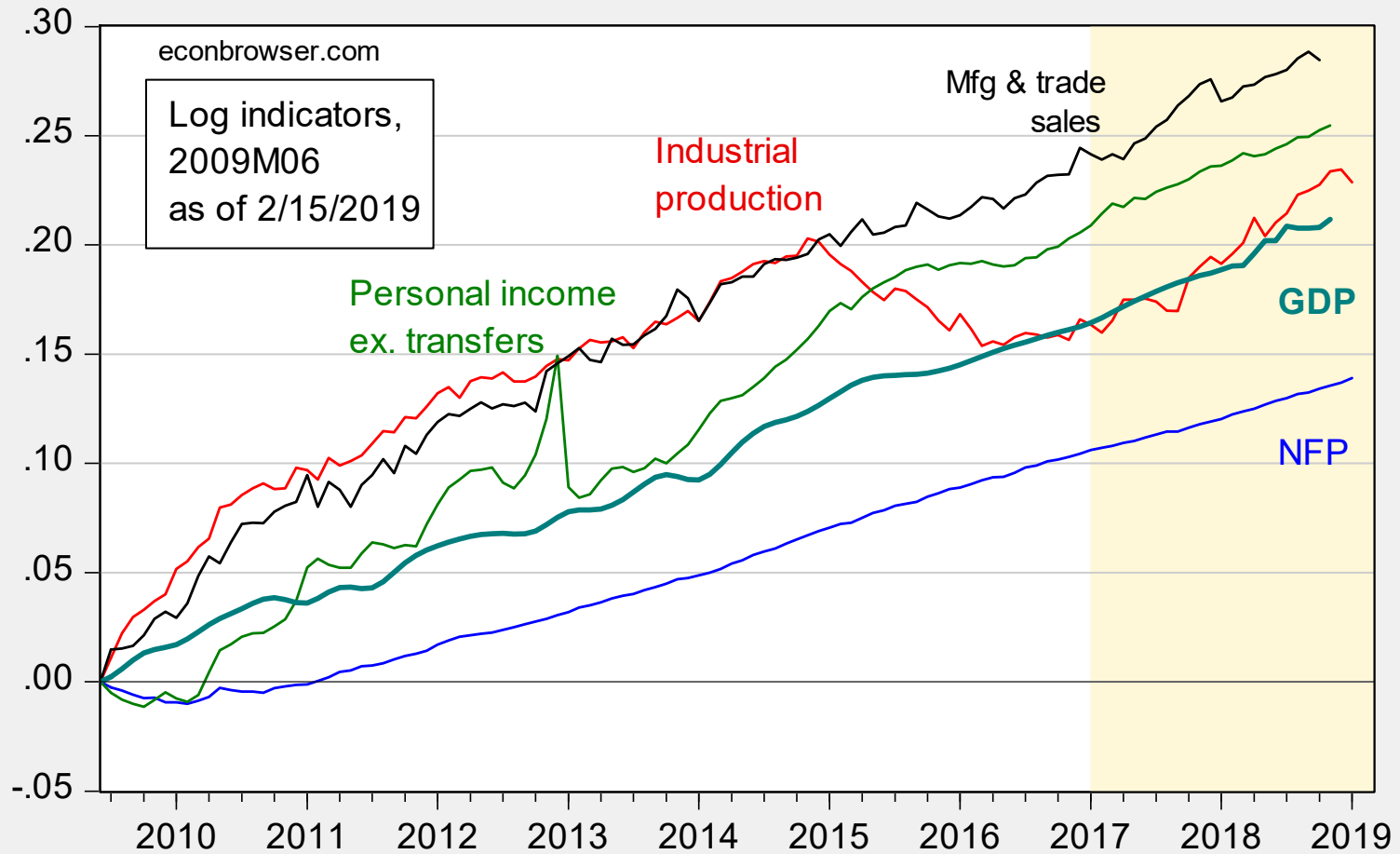
2007-2012 Recession (in real time)



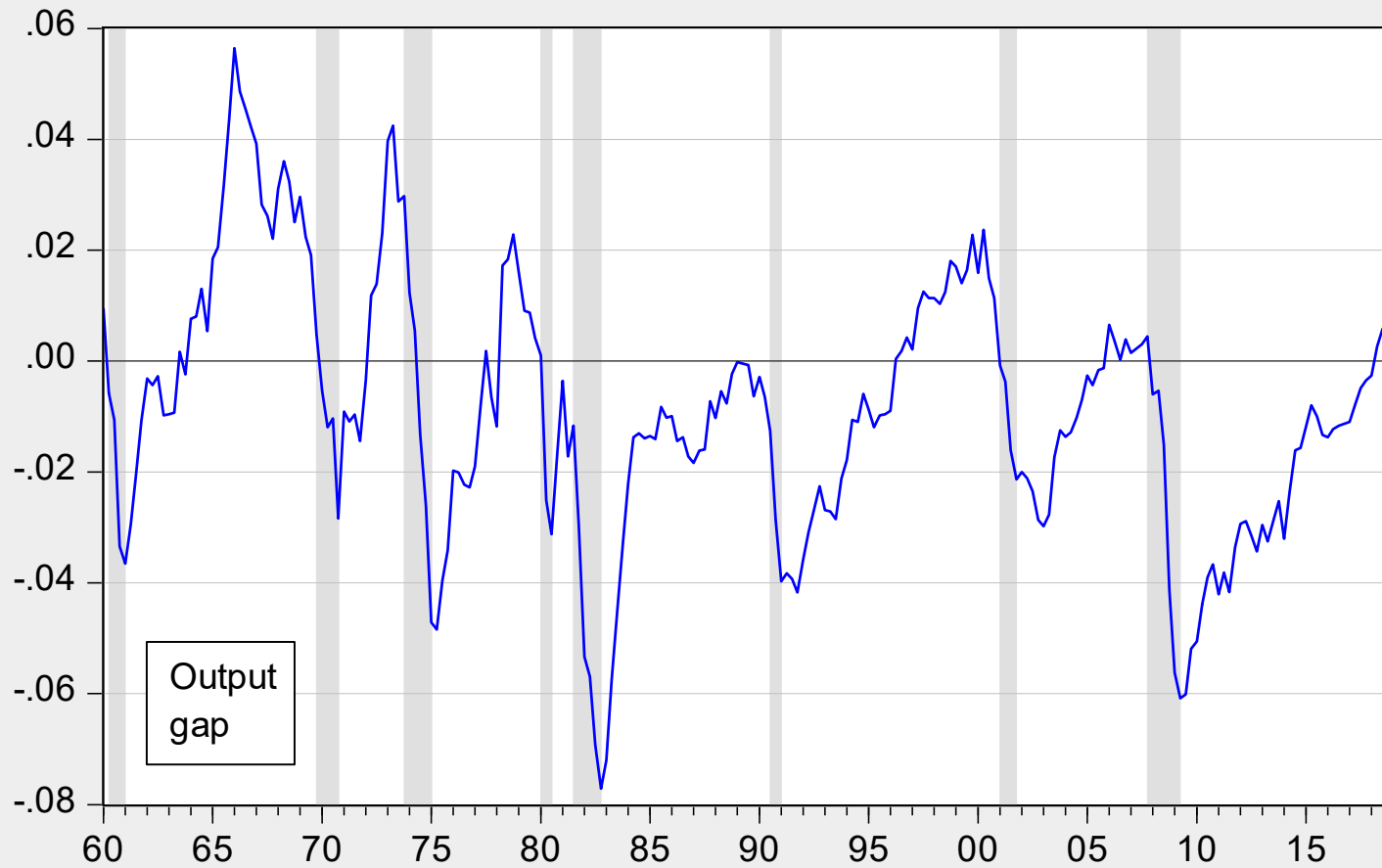
What We Know Actually Happened



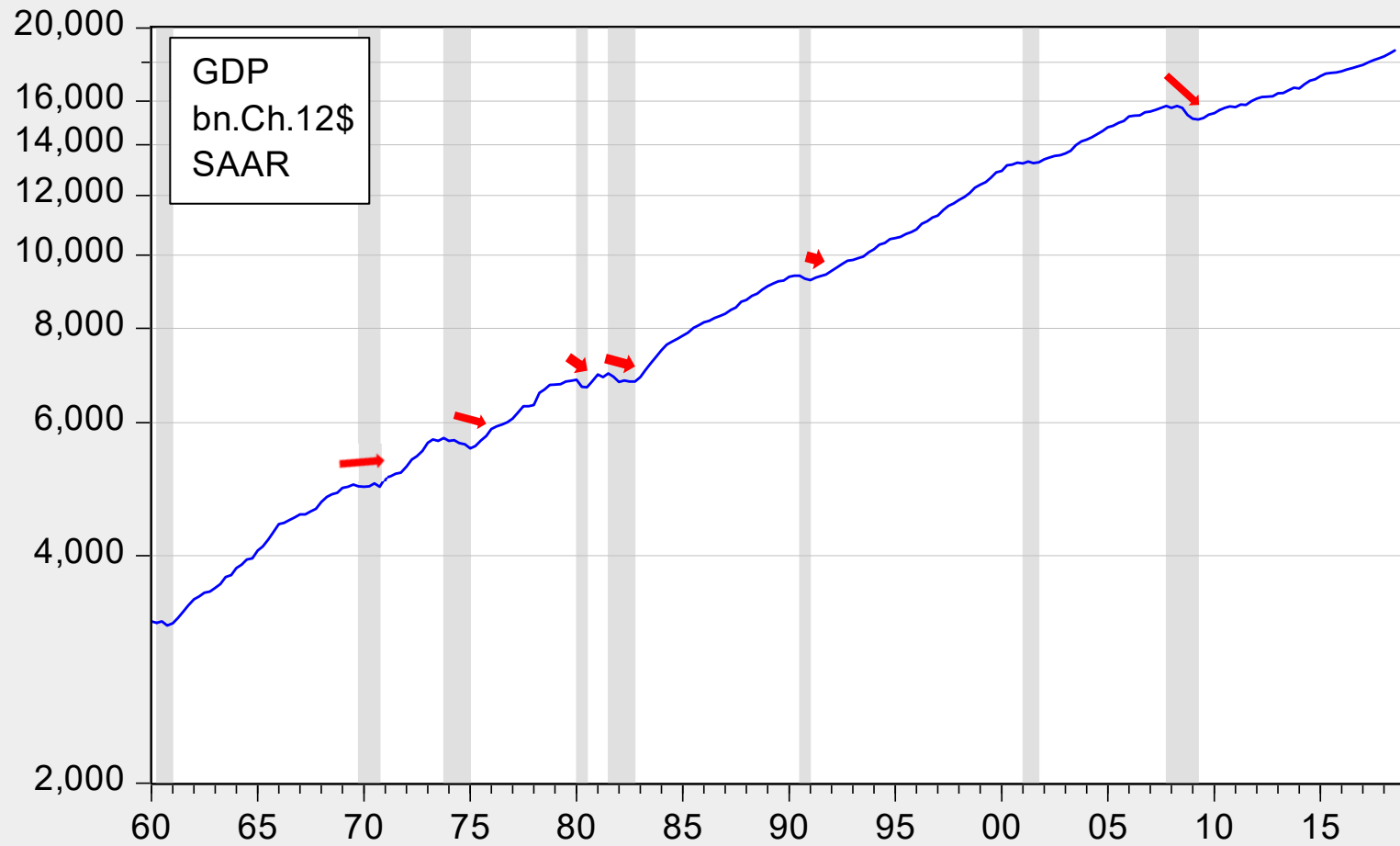
Where Are We Now?



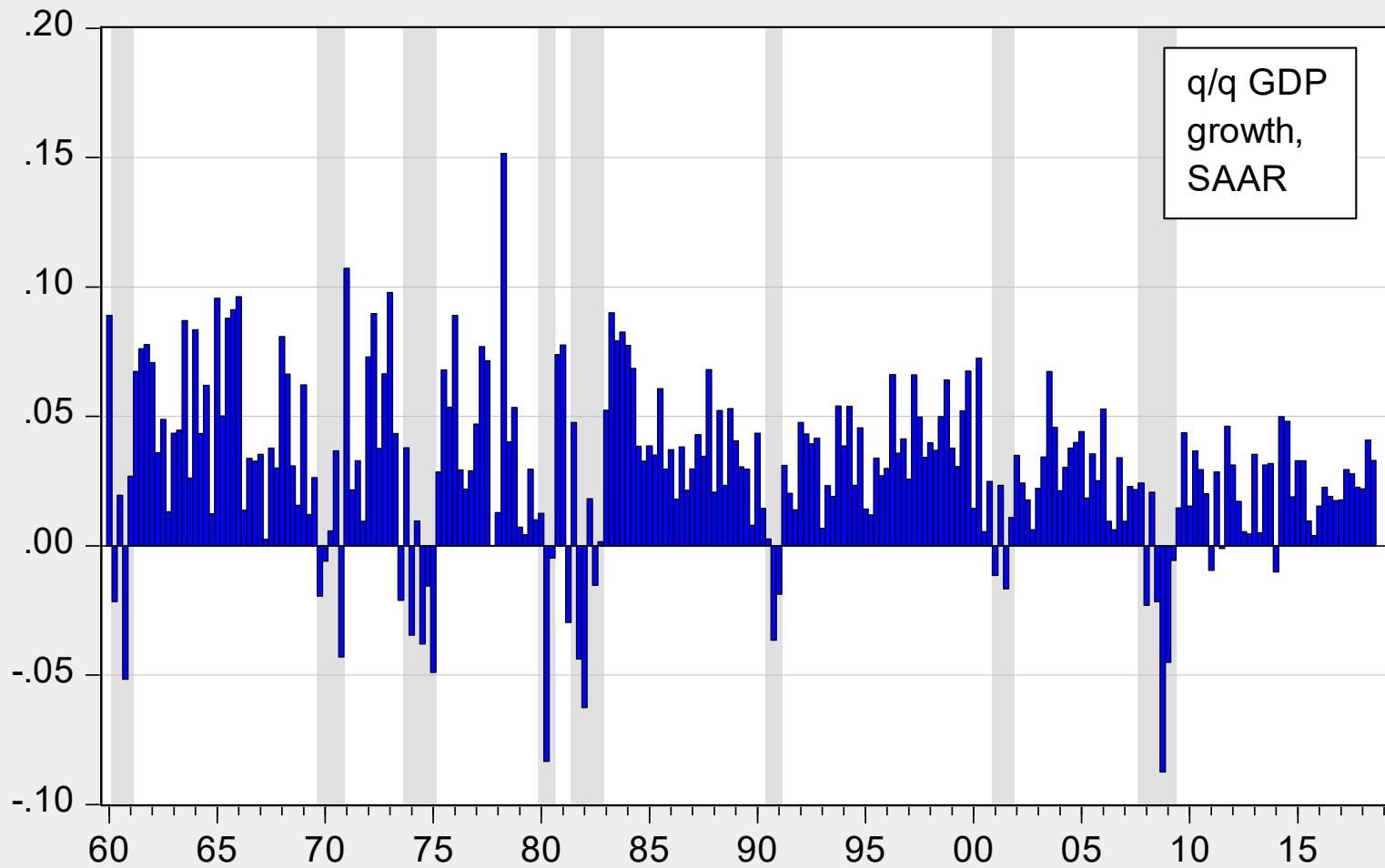
Two Ways of Modeling



Downward Movement?



Two Consecutive Quarters?



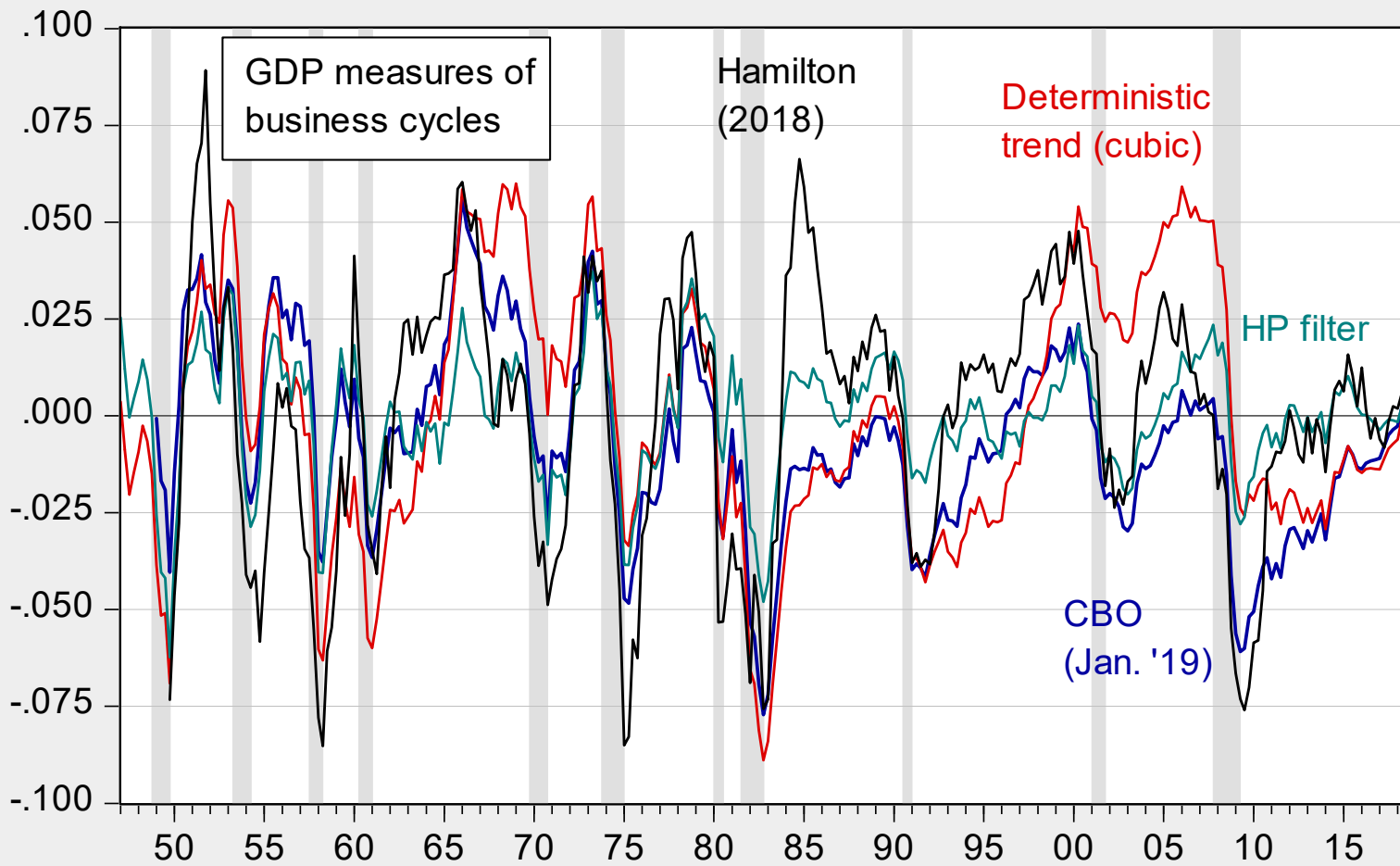
How to Model?

- Output gap suggests using time series methods, in some sort of trend-cycle decomposition
- Regime-switching (expansion, contraction)

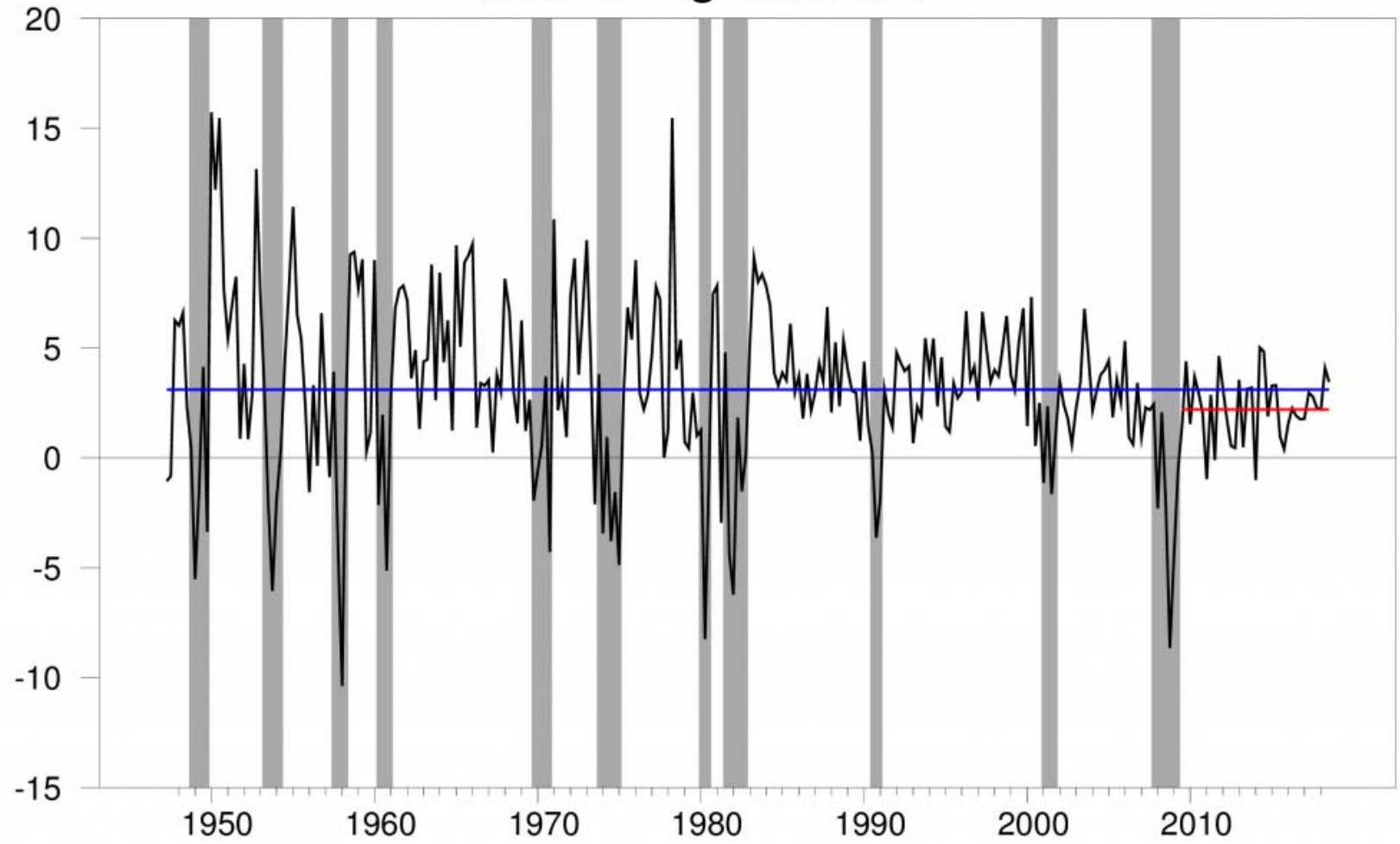
Trend-Cycle Decomposition

- Can take out trend using mechanical methods (as in CBO potential GDP estimate using labor stock, demographics, capital stock, technology)
- Can extract trend, cycle using filter (linear deterministic trend, Hodrick-Prescott filter).
- Can extract trend, cycle using more complicated methods assuming correlation, no correlation between trend, cycle.

Gaps



Real GDP growth rate



Regimes

