

Term Paper Assignment

The term paper assignment requires the submission of a 10-page (of double spaced text) paper, due by 5:30PM, Thursday, December 10th 12th (revised) delivered electronically (in PDF, or if necessary Word format) via Canvas. 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, title, and other relevant information (not included in the page count) should be included. Since the page length is short, the introduction need only be brief.

References can use any system (Chicago, MLA) but *be consistent*.

When you submit your paper, title the file LASTNAME_TOPIC, where TOPIC is a word associated with each topic (highlighted yellow below).

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 (using Excel or FRED). Proper citation of source materials should 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. Data are available St. Louis Fed FRED system, and also from IMF's *International Financial Statistics* (IFS) and World Bank *World Development Indicators* (WDI), both accessible via <http://www.disc.wisc.edu>.

Your primary readings for these topics should be the textbook and assigned readings in the course (in other words, do not do searches on the internet willy-nilly). You should feel free to consult certain weblogs (Econbrowser, *WSJ* RealTime Economics, CBO Blog, Calculated Risk), and op-eds to get ideas and links to documents, **but do not cite weblog posts as references**. Also, do not cite lecture notes.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 of the usual policy organization sources (including IMF, OECD, BIS, Federal Reserve Board working papers), and NBER working papers (available at <http://www.nber.org> free access from computers 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 you deploy graphs, equations, and data/figures/tables to buttress your arguments.

Topic 1: Continued Boom or Double Dip Recession? [RECESSION]

The current US recession started February 2020; while most indicators are rising the NBER is unlikely to declare an end to the recession, given data revisions and uncertainty whether the rise in indicators is short-lived. In your analysis, explain what a recession is, and your reasoning. Be sure to address the following points.

- What do the relevant indicators suggest is the current state of the economy?
- How do economic and public health (Covid-19) outcomes interact?
- What do currently proposed fiscal, monetary policies imply for the economic outlook?
- What do forward looking indicators (financial, or otherwise) imply for the economy's outlook? In discussing the implications of the forward looking indicators, be sure to explain the economic logic underpinning each approach.

Possible references include the textbook, the NBER website on business cycles, <http://www.nber.org/cycles.html>, and the CBO's *An Update to the Economic Outlook: 2020 to 2030* (July 2020).

Topic 2: The Impact of Government Debt on Interest Rates [DEBT]

The portfolio crowding out model relies upon money demand depending upon wealth. The model implies, *ceteris paribus*, that increasing government debt results in higher interest rates on government debt. In addition, debt sustainability concerns can lead to increased sensitivity of government bond yields to the accumulation of debt. Your paper should examine some or several of the following questions:

- What is the cross country evidence in favor of higher government debt resulting in higher interest rates?
- Should expected debt matter as well as current debt?
- Are there other factors besides debt that should matter to debt yields? What are they?

A suggested background paper/source: Kitchen and Chinn paper, as well as http://dss.ucsd.edu/~jhamilto/USMPF13_final.pdf. This paper topic is amenable to empirical work.

Topic 3: How Big Are Fiscal Multipliers? [MULTIPLIERS]

One question in the debate over the stimulus package of 2009, as well as the recovery package of 2020 (CARES act) was the magnitudes of the fiscal multipliers – in particular those for spending on government services and spending on government transfers, and to a lesser extent those for tax cuts. In your analysis, discuss:

- Why these multipliers should differ in magnitude even in simple Keynesian models.
- Whether these multipliers depend on the conduct of monetary policy, and in particular, the conduct of monetary policy during the Great Recession.
- Whether the special conditions of 2020 should have had an impact.

One paper that might be of use (including references) is: <http://www.ssc.wisc.edu/~mchinn/Fiscal%20Multipliers.pdf>

Topic 4: Is the Phillips Curve a Useful Concept? [PHILLIPS]

The Phillips curve – a positive relationship between inflation and the output gap – is a centerpiece of macroeconomics. However, there are many different versions of the Phillips curve, some based on old-style models from the 1970's, some based on New Keynesian models currently in use.

- Explain the theoretical underpinnings of the Phillips curve
- Has the Phillips curve changed its shape over time?
- Is the Phillips a relationship that can be exploited? If so, identify the conditions under which it can.
- How does the Fed's monetary policy framework accord with the recent research on the Phillips curve.

Base the beginning of your research on the readings on the Phillips curve, Blanchard et al., and Coibion et al.

Topic 5: The Dollar, Growth and the Trade Deficit [DOLLAR]

The rapid ascent of the dollar since mid-2014 has threatened the US economic recovery and has widened the current account deficit.

- Explain why the dollar has risen since 2014, and remained relatively strong since then.
- Discuss why the rise of the dollar has had the effects it has on output and trade.
- How will proposed macroeconomic policies impact the economy going forward?
- Has uncertainty regarding policy (particularly trade policy) had an impact on the US economy?
- Discuss what policy measures *should* be undertaken if any, and why in order to remedy those problems you see. Be sure to explain how the measures you propose would achieve the goals you outline.

Refer to IMF (World Economic Outlook), Federal Reserve Board reports and/or working papers. One relevant paper is Chinn (2004). https://www.ssc.wisc.edu/~mchinn/IF_tradedeficit.pdf

Topic 6: Modifying Monetary Policy [MONETARY]

Some economists have argued that monetary policy has been too tight over the past decades. In your paper, be sure to assess:

- What are the stated objectives for the Federal Reserve Board?
- How does the Taylor rule match up with the Fed's objectives?

- Given the Fed's stated objectives, has monetary policy been too tight or too loose? Given your conclusion, does the Fed's new monetary framework make sense.
- Be sure to indicate your assessment of the efficacy of each of the policy instruments, including unconventional policy tools.

You should refer to the assigned reading <https://www.brookings.edu/wp-content/uploads/2018/10/WP47-Kuttner.pdf> as well as the Fed's papers on the new monetary policy framework (see links on course website).

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