

Public Affairs 854  
**Macroeconomic Policy and  
International Financial Regulation**

Lecture 1  
9/4/2014

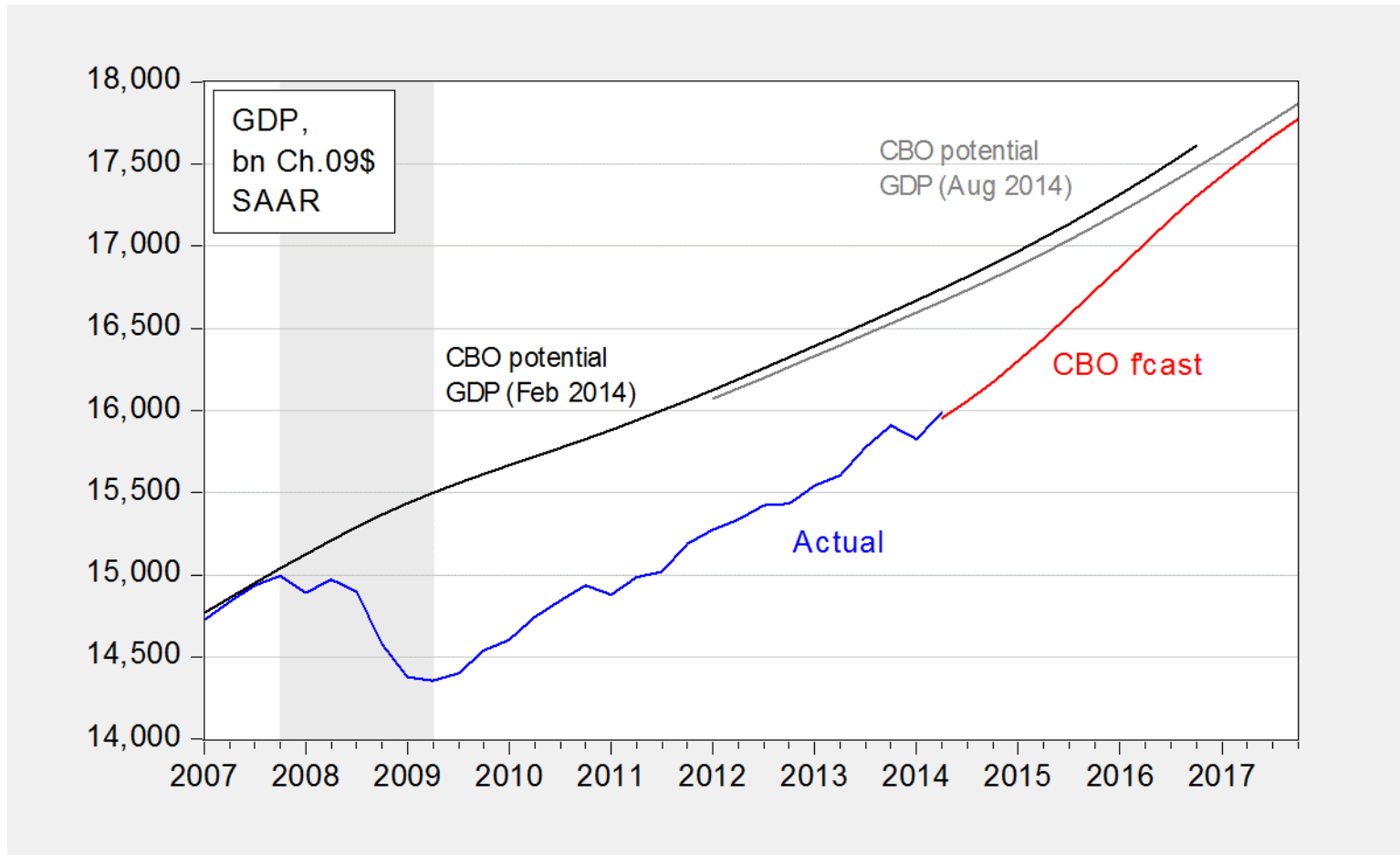
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La Follette School of Public Affairs  
Fall 2014

# The Global Landscape

	Year over Year						Q4 over Q4		
	2012	2013	Projections		Difference from April 2014 WEO Projections 2/		Estimates 2013	Projections	
			2014	2015	2014	2015		2014	2015
<b>World Output</b>	<b>3.5</b>	<b>3.2</b>	<b>3.4</b>	<b>4.0</b>	<b>-0.3</b>	<b>0.0</b>	<b>3.6</b>	<b>3.3</b>	<b>3.8</b>
<b>Advanced Economies</b>	<b>1.4</b>	<b>1.3</b>	<b>1.8</b>	<b>2.4</b>	<b>-0.4</b>	<b>0.1</b>	<b>2.0</b>	<b>1.8</b>	<b>2.4</b>
United States	2.8	1.9	1.7	3.0	-1.1	0.1	2.6	1.7	3.0
Euro Area	-0.7	-0.4	1.1	1.5	0.0	0.1	0.5	1.4	1.6
Germany	0.9	0.5	1.9	1.7	0.2	0.1	1.4	1.8	1.8
France	0.3	0.3	0.7	1.4	-0.3	-0.1	0.8	1.0	1.6
Italy	-2.4	-1.9	0.3	1.1	-0.3	0.0	-0.9	0.8	1.2
Spain	-1.6	-1.2	1.2	1.6	0.3	0.6	-0.2	1.7	1.5
Japan	1.4	1.5	1.6	1.1	0.3	0.1	2.4	1.4	0.6
United Kingdom	0.3	1.7	3.2	2.7	0.4	0.2	2.7	3.4	2.2
Canada	1.7	2.0	2.2	2.4	-0.1	0.0	2.7	2.0	2.4
Other Advanced Economies	2.0	2.3	3.0	3.2	0.0	0.0	2.8	2.7	3.7
<b>Emerging Market and Developing Economies</b>	<b>5.1</b>	<b>4.7</b>	<b>4.6</b>	<b>5.2</b>	<b>-0.2</b>	<b>-0.1</b>	<b>5.1</b>	<b>4.8</b>	<b>5.0</b>
Commonwealth of Independent States	3.4	2.2	0.9	2.1	-1.0	-1.1	2.1	-0.4	0.9
Russia	3.4	1.3	0.2	1.0	-1.1	-1.3	2.0	-0.1	0.4
Excluding Russia	3.6	4.2	2.4	4.4	-0.6	-0.6	...	...	...
Emerging and Developing Asia	6.7	6.6	6.4	6.7	-0.2	-0.1	6.7	6.6	6.4
China	7.7	7.7	7.4	7.1	-0.2	-0.2	7.7	7.7	6.8
India 3/	4.7	5.0	5.4	6.4	0.0	0.0	6.1	5.6	6.6
ASEAN-5 4/	6.2	5.2	4.6	5.6	-0.4	0.2	...	...	...
Emerging and Developing Europe	1.4	2.8	2.8	2.9	0.4	0.0	3.4	3.0	3.5
Latin America and the Caribbean	2.9	2.6	2.0	2.6	-0.5	-0.3	1.9	1.9	2.6
Brazil	1.0	2.5	1.3	2.0	-0.6	-0.6	2.2	1.3	2.2
Mexico	4.0	1.1	2.4	3.5	-0.6	0.0	0.6	3.0	3.4
Middle East, North Africa, Afghanistan, and Pakistan	4.9	2.5	3.1	4.8	-0.2	0.2	...	...	...
Sub-Saharan Africa	5.1	5.4	5.4	5.8	0.0	0.2	...	...	...
South Africa	2.5	1.9	1.7	2.7	-0.6	0.0	2.1	1.7	2.7

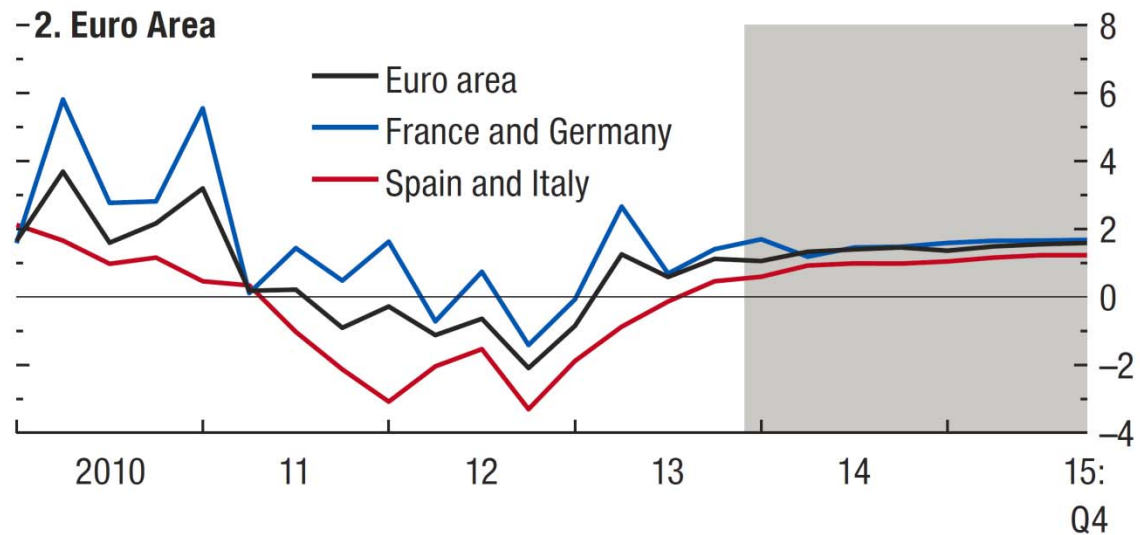
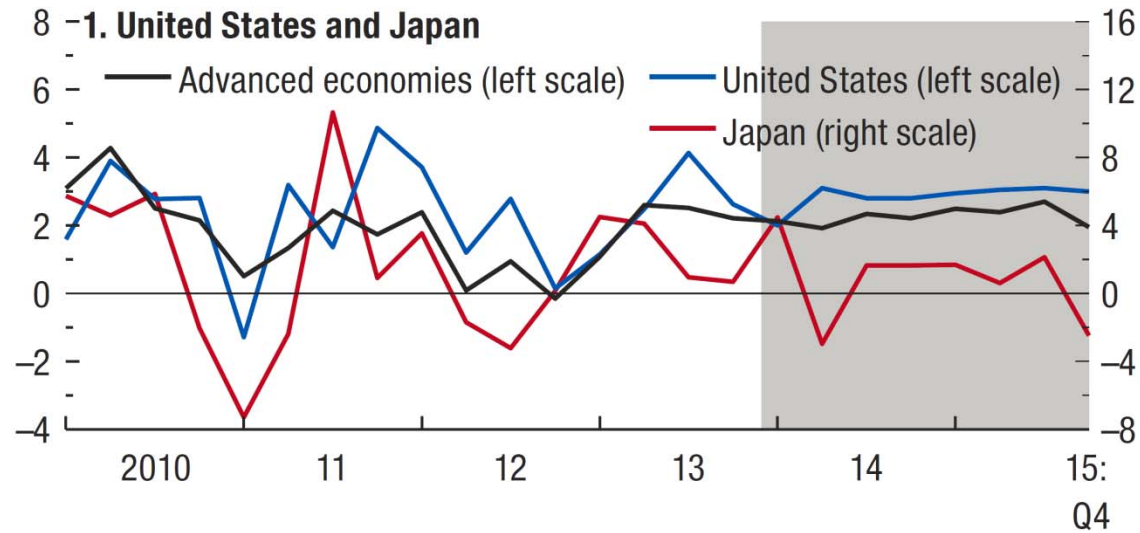
Source: IMF, *World Economic Outlook update*, July 2014.

# America in “recovery”

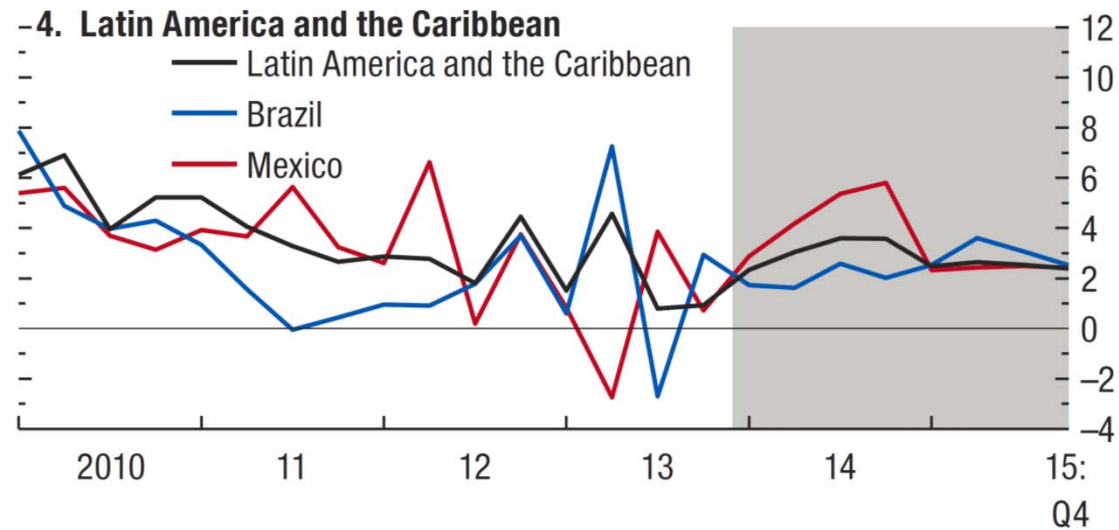
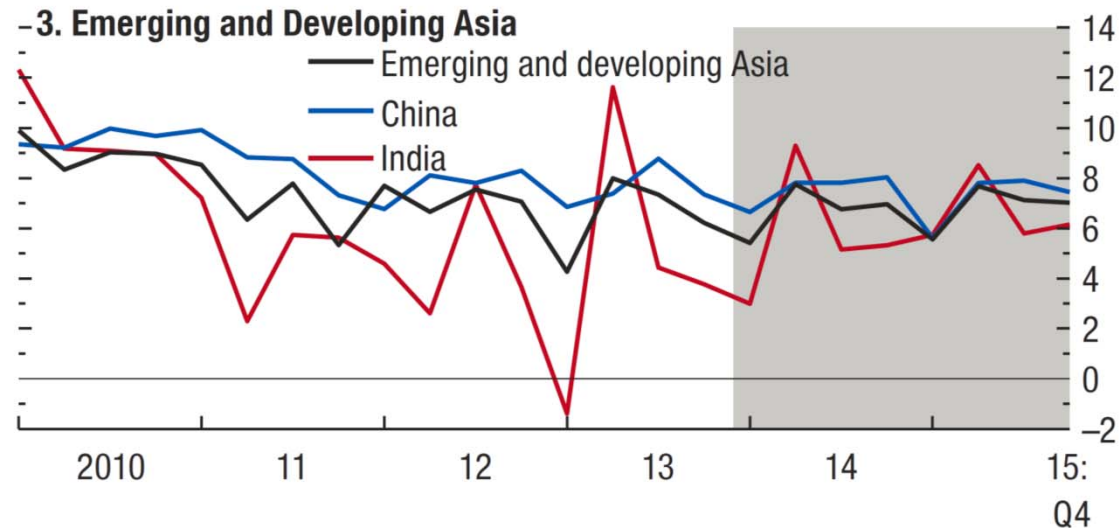


Log real US GDP. Source: BEA, 2014Q2 2nd release, CBO, Feb, Aug 2014

# The Rest of the World

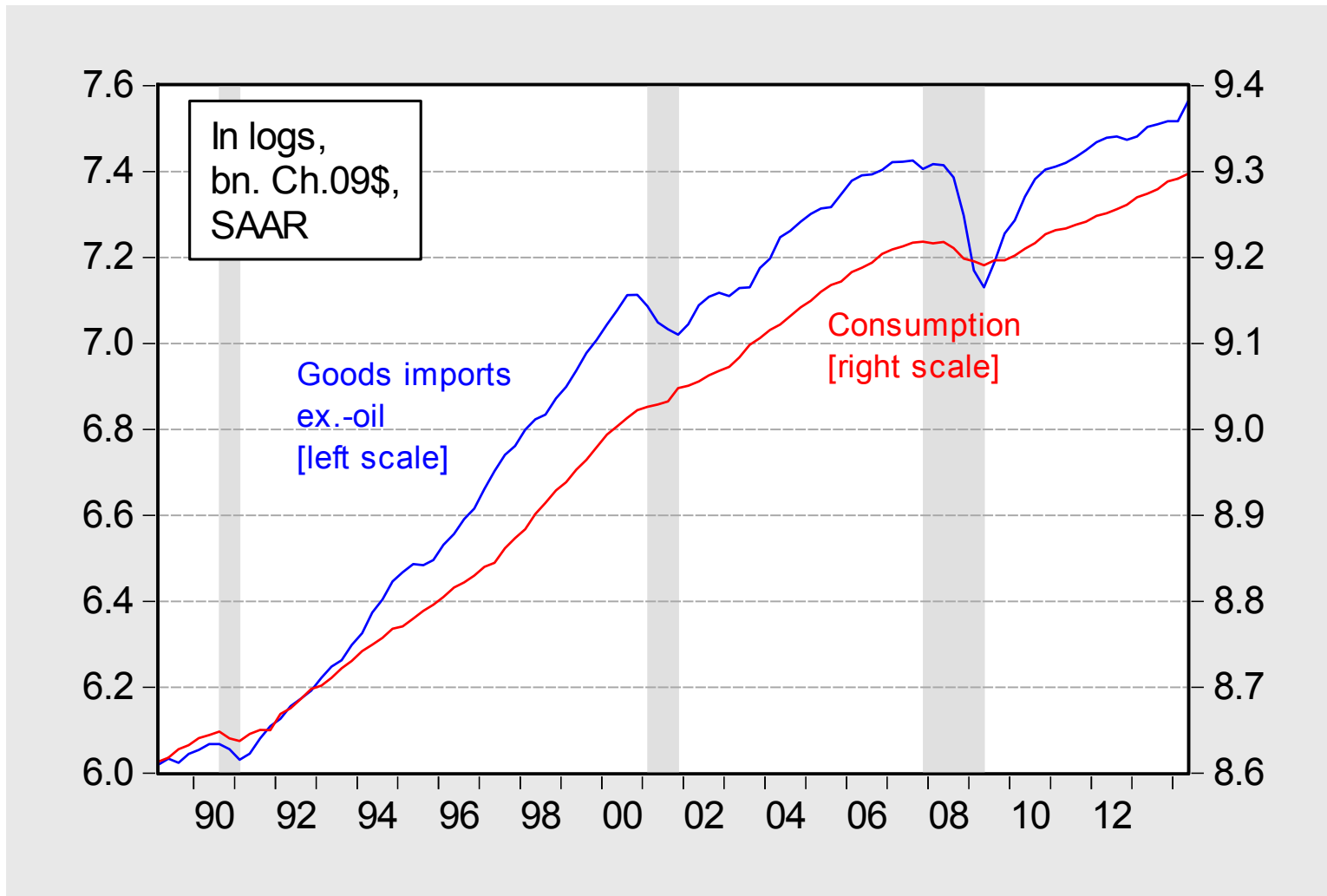


# The Rest of the World (II)



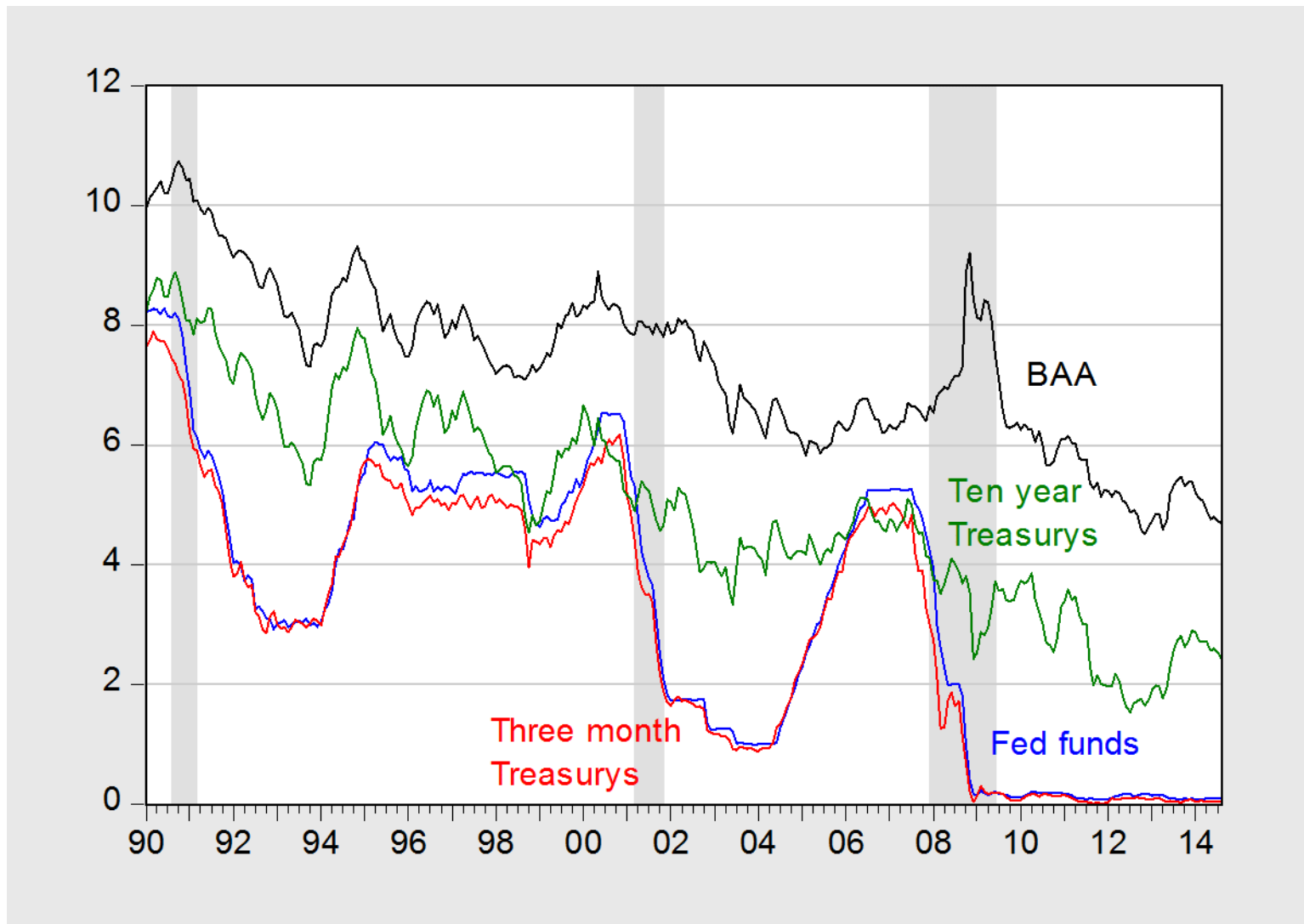
Source: IMF, *World Economic Outlook*, April 2014, Figure 1.2.

# America: No longer consumer of last resort

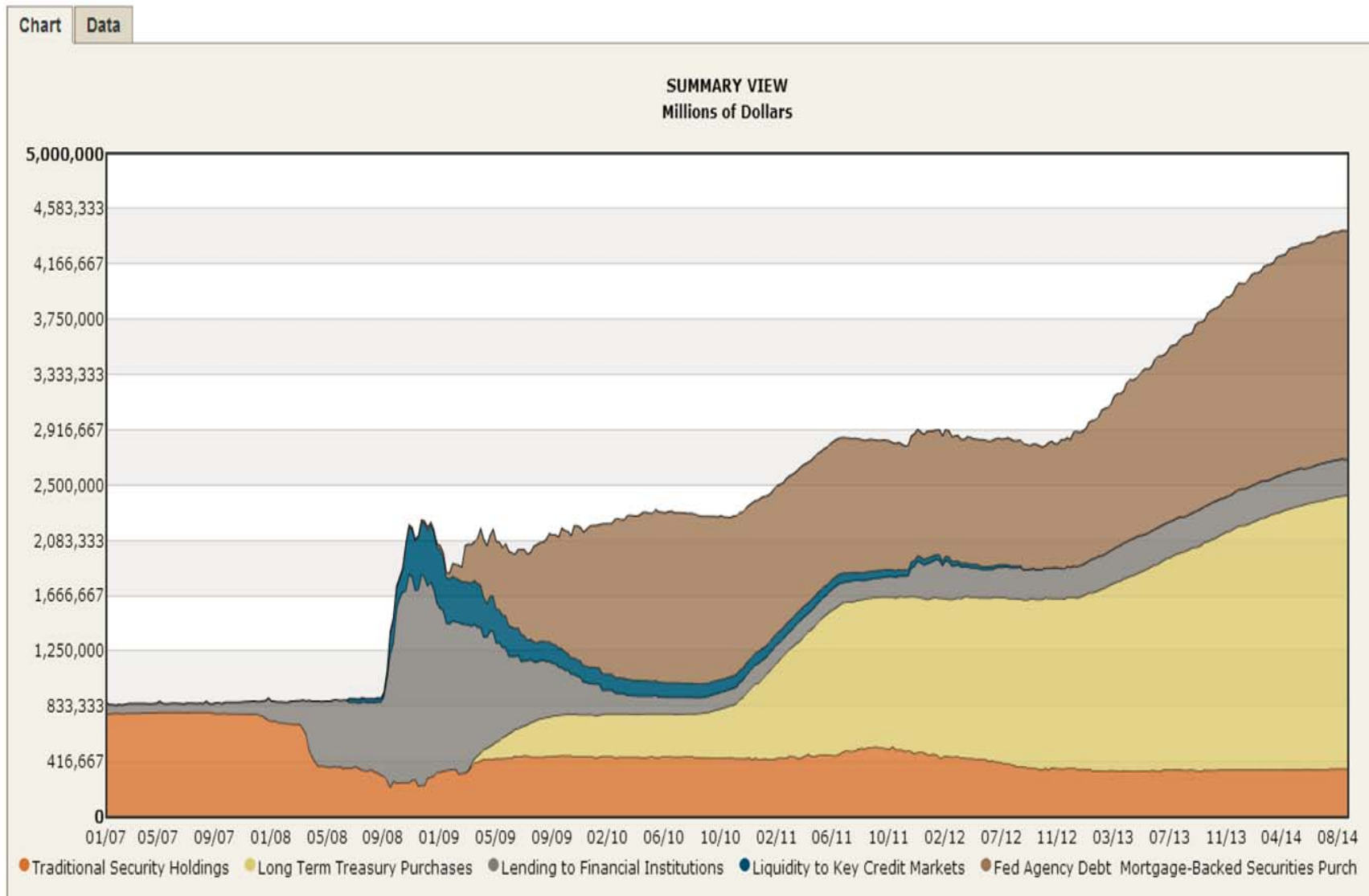


Log real imports of goods ex.-oil, and real consumption. Source: BEA, August 2014), NBER

# Monetary Policy



# Fed interventions



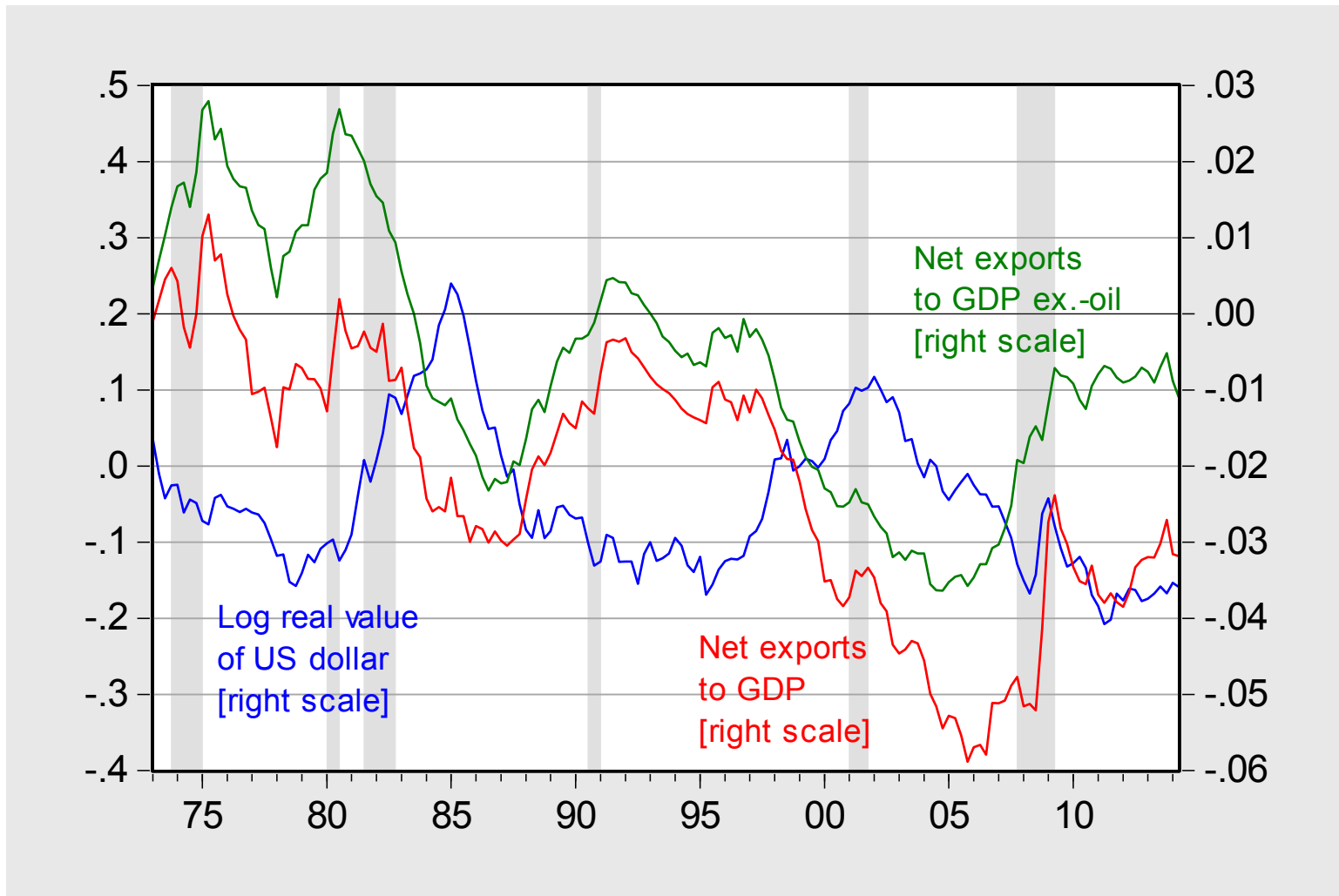
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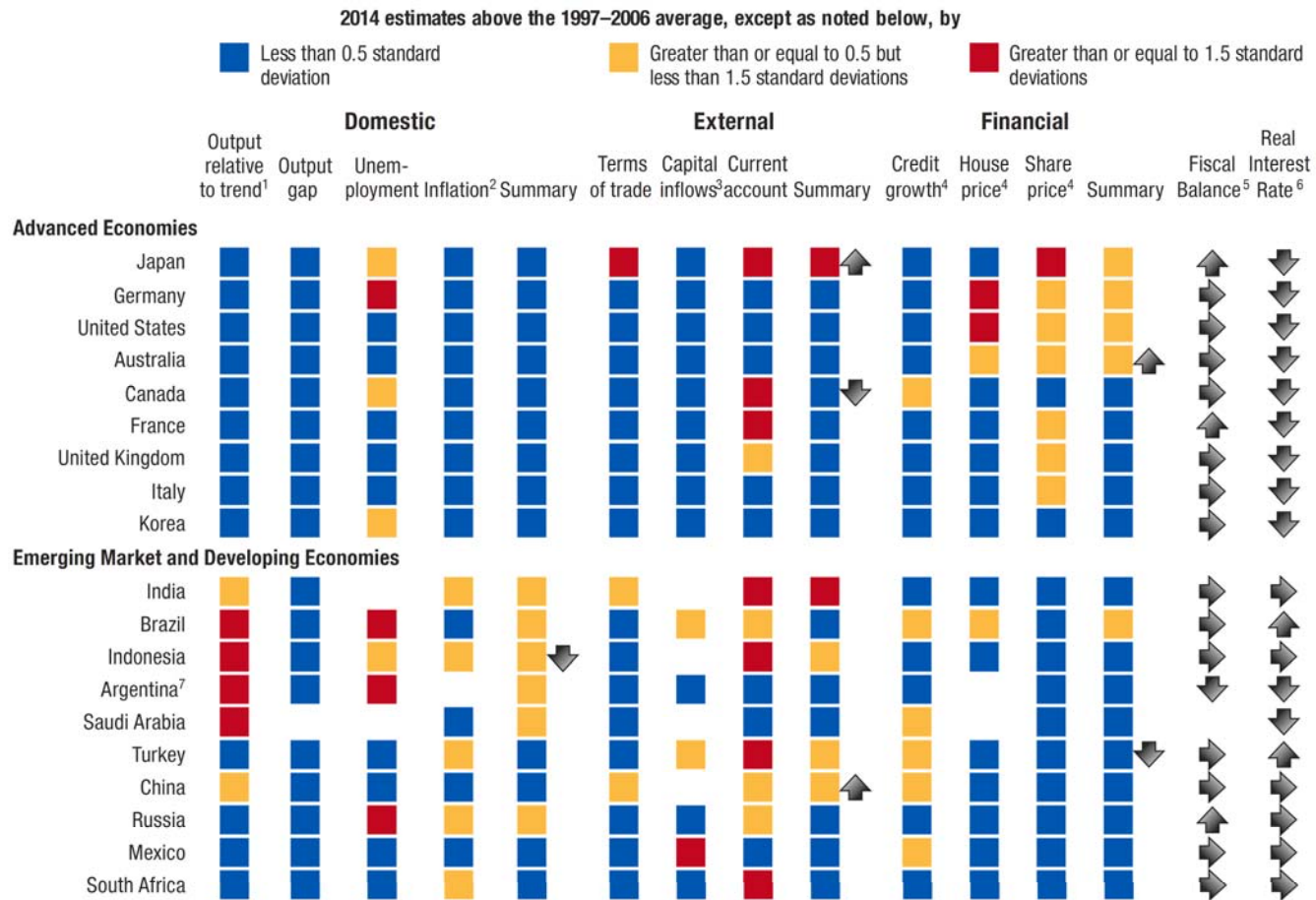
# Looking ahead

- Deleveraging implies easy credit is over for...
- European sovereign debt crisis
- Emerging market bust (China)
- Rebalancing is key

# Net Exports and the Dollar

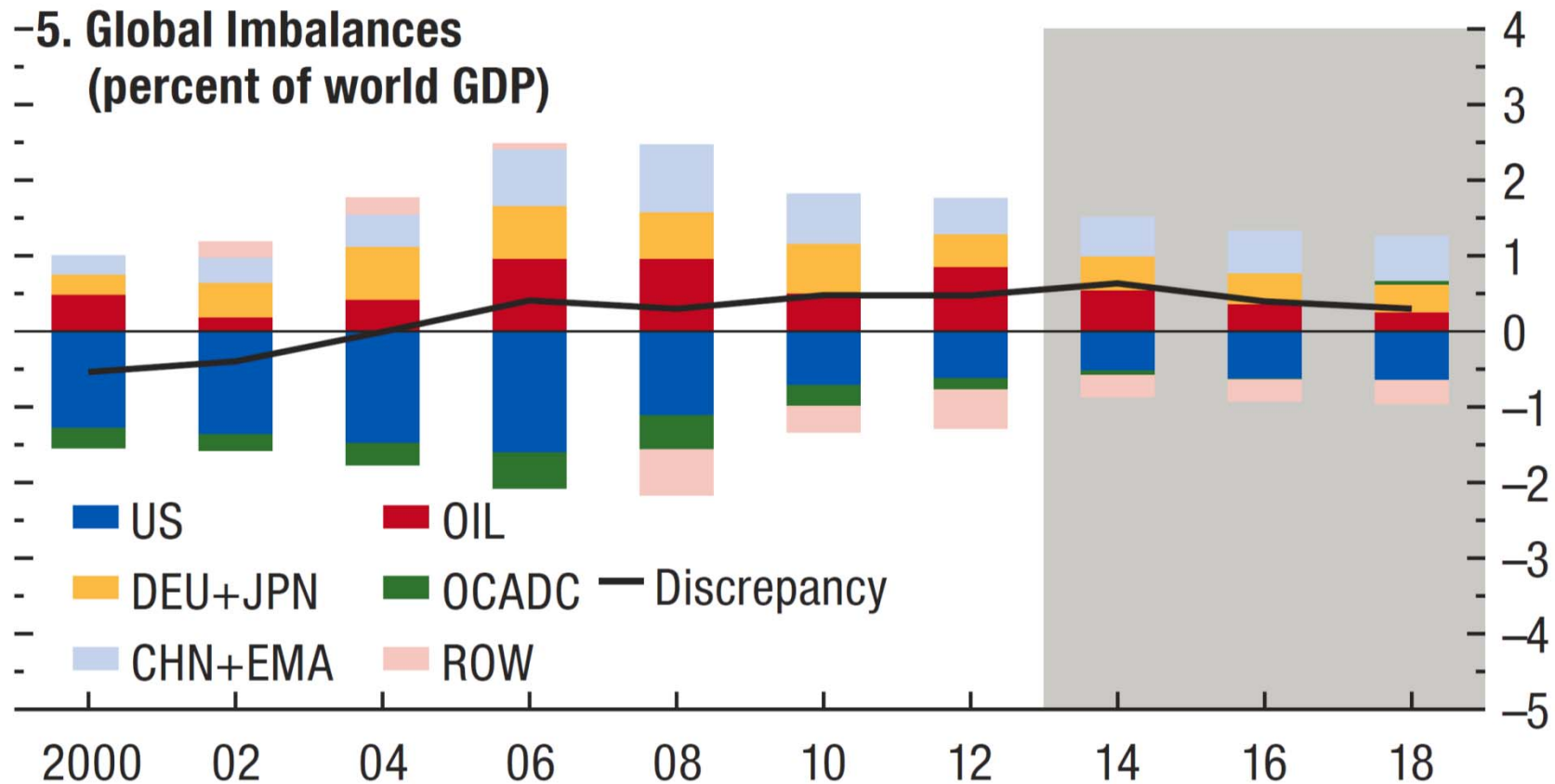


Source: Federal Reserve Board, and BEA, 2014Q2 GDP 2nd release



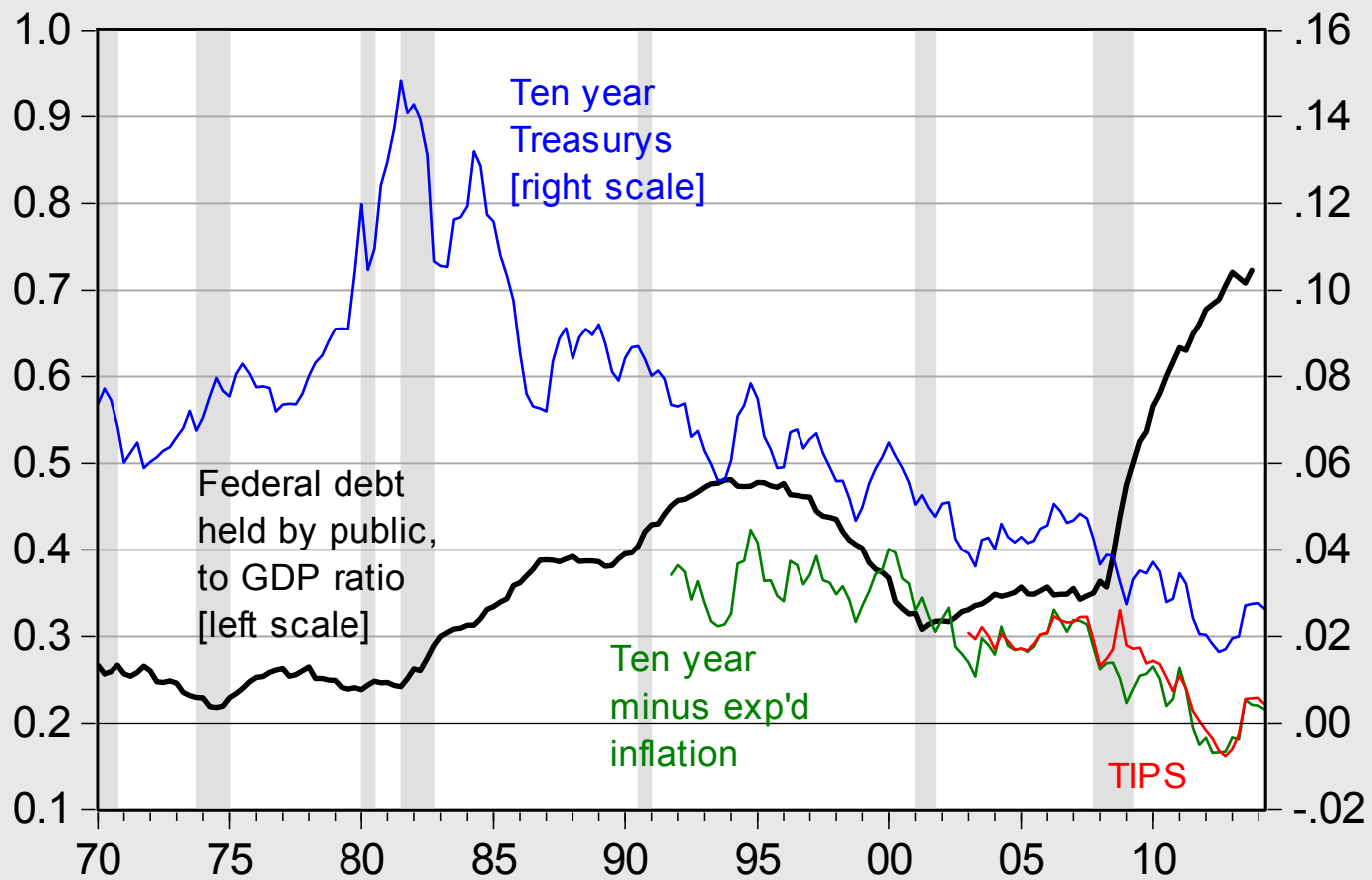
Source: IMF, World Economic Outlook, April 2014, Figure 1.7

# Global Imbalances Persist



Source: IMF, World Economic Outlook, April 2014, Figure 1.12

# The Current Puzzle



# Concepts/Definitions

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

# GDP

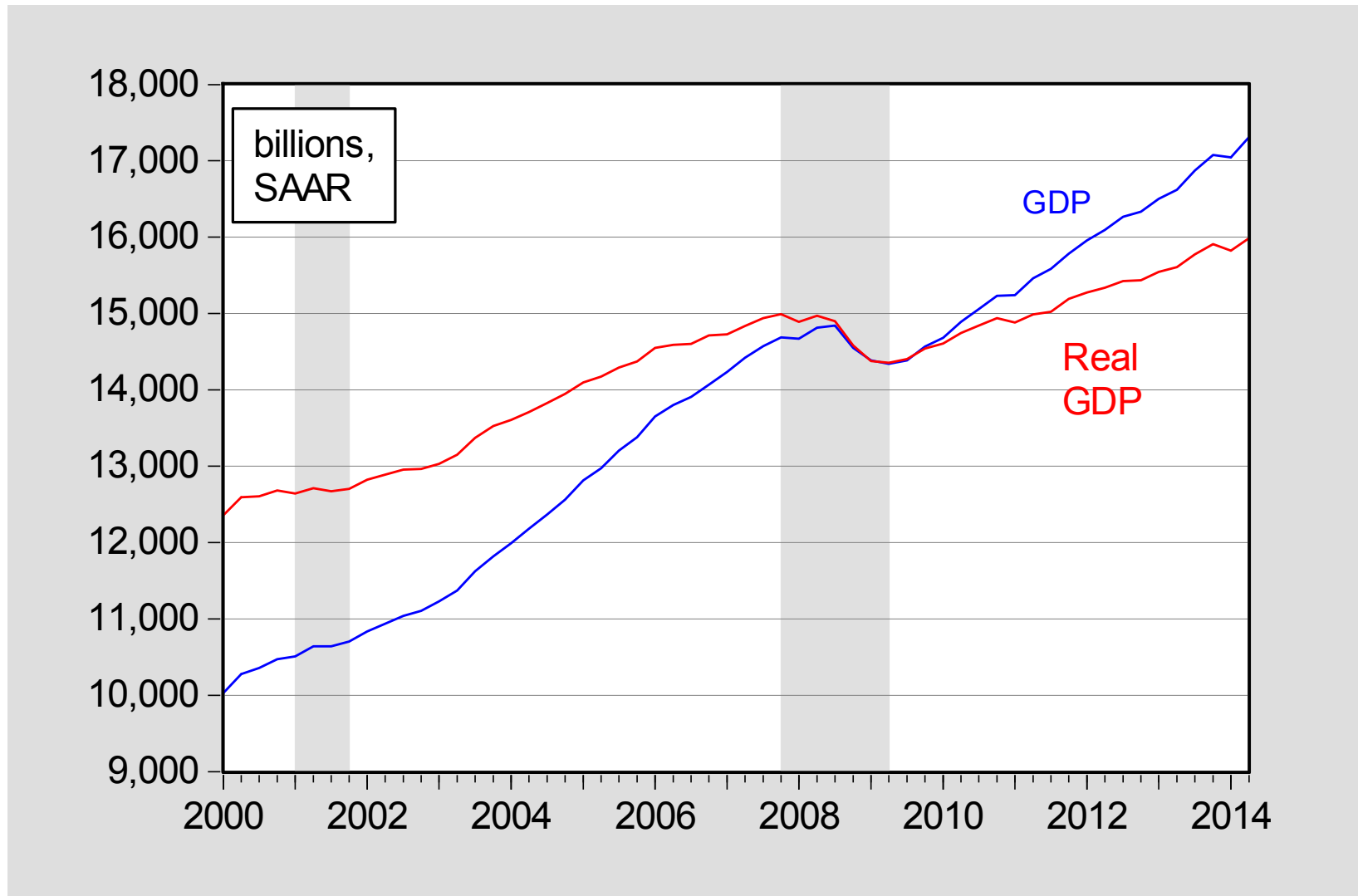
- Sum of value of all goods and services produced within a given time period (usually a year or a quarter)
- If quarterly, usually adjusted up to yearly rates
- $GDP = C + I + G + (Ex - Im)$
- All these are “final” goods and services

# 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”.
- $\text{Nominal Value/Price index} = \text{Real Quantity}$
- $\text{Nominal Price/Price index} = \text{Relative Price}$

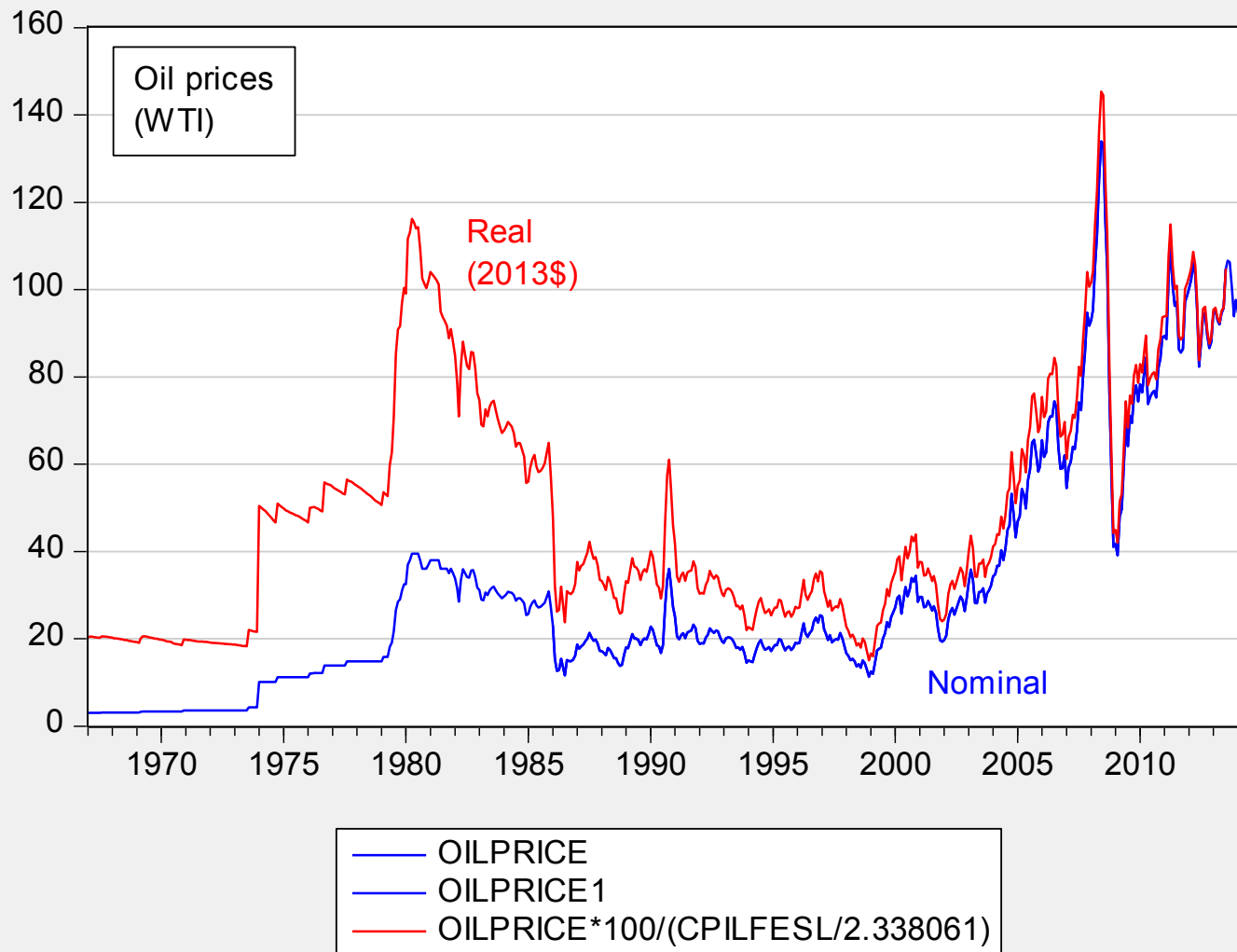


# Nominal vs. Real



Source: BEA, 2014Q2 2<sup>nd</sup> release

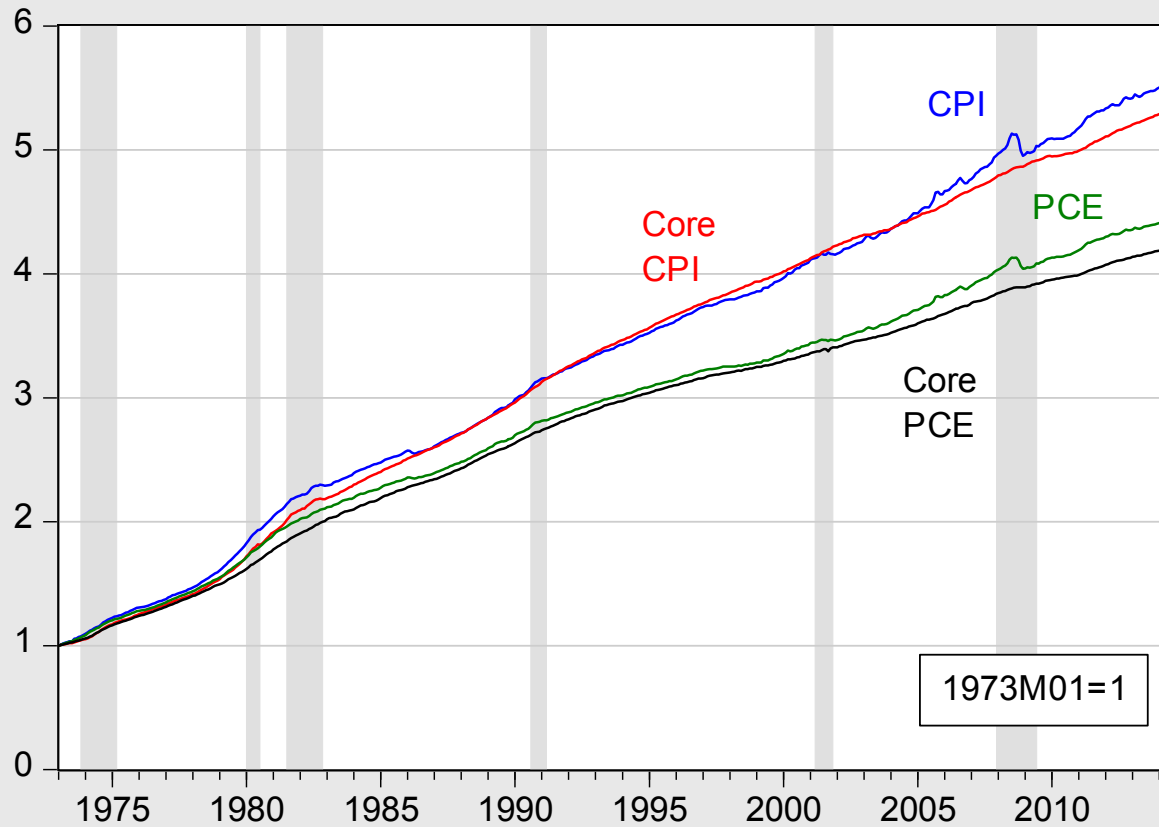
# Relative Price (of Oil)



# Price Level vs. Inflation

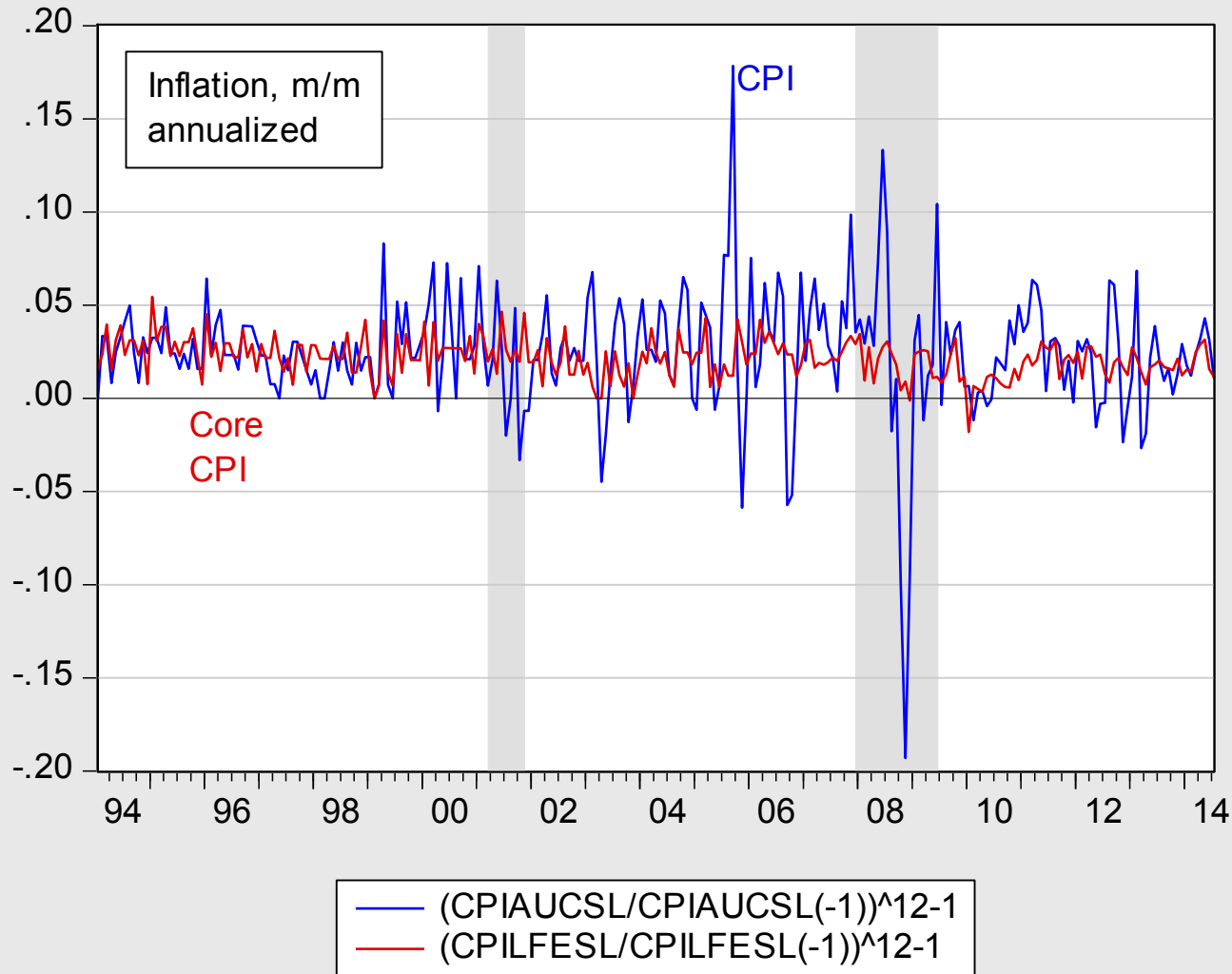
- Let  $P$  = price level
- Inflation = *percent* rate of change of price level
- Standard definition:  $\pi_t = (P_t - P_{t-1})/P_{t-1}$  (on annual basis)
- Sometimes, a continuously compounded definition is used:
- $\pi_t = \ln(P_t) - \ln(P_{t-1})$
- Standard variables: CPI, core CPI, PCE

# Price Levels



— CPIAUCSL/@ELEM(CPIAUCSL,73.01)  
— CPILFESL/@ELEM(CPILFESL,73.01)  
— PCEPI/@ELEM(PCEPI,73.01)  
— PCEPILFE/@ELEM(PCEPILFE,73.01)

# Inflation: Total vs. Core



# Inflation: M/M vs. Y/Y

