Public Affairs 854
Macroeconomic Policy and
International Financial Regulation
Lecture 1
9/4/2014

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La Follette School of Public Affairs
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### The Global Landscape

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>Projections</th>
<th>Difference from April 2014 WEO Projections 2/</th>
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</tbody>
</table>

America in “recovery”

Log real US GDP. Source: BEA, 2014Q2 2nd release, CBO, Feb, Aug 2014
The Rest of the World

1. United States and Japan
- Advanced economies (left scale)
- United States (left scale)
- Japan (right scale)

2. Euro Area
- Euro area
- France and Germany
- Spain and Italy
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

http://www.clevelandfed.org/research/data/credit_easing/index.cfm
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

Federal debt held by public, to GDP ratio

Ten year Treasurys [right scale]

Ten year minus exp'd inflation

TIPS
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”.
• Nominal Value/Price index = Real Quantity
• Nominal Price/Price index = Relative Price
Nominal vs. Real

Source: BEA, 2014Q2 2nd release
Relative Price (of Oil)

Oil prices (WTI)

Real (2013$)
Nominal

- OILPRICE
- OILPRICE1
- OILPRICE*100/(CPIFESL/2.338061)
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

![Graph showing price levels over time with CPI, Core CPI, PCE, and Core PCE indicators. The graph includes a reference to 1973M01=1.](image)

Legend:
- CPI: Blue line
- Core CPI: Red line
- PCE: Green line
- Core PCE: Black line

Equations:
- 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 annualized

(CPIAUCSL/CPIAUCSL(-1))^12-1
(CPILAESL/CPILAESL(-1))^12-1
Inflation: M/M vs. Y/Y

CPI inflation, annualized

(CPIAUCSL/CPIAUCSL(-1))^12-1

(CPIAUCSL/CPIAUCSL(-12))-1