

### **Term Paper Assignment**

The term paper assignment requires the submission of a 20-page paper, due by 5PM, Tuesday, December 15th, in my mailbox, or (preferably) electronically (in PDF, or if necessary Word, doc [not docx] format). 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. Unlike policy papers you might have written in the past, you do not need to make a specific recommendation; the paper could be purely analytical in nature.

The paper should be empirically focused (that is data, cases studies 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. Proper citation of source materials should be made. In addition, you should feel free to conduct your own empirical analyses, if you believe that would be helpful in supporting your case.

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*WSJ* RealTime Economics, CBO Blog, Calculated Risk), and op-eds to get ideas and links to documents, **but do not cite weblog posts as references**. Also, do not cite lecture notes.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 the usual policy organization sources (including IMF, OECD, BIS working papers), and NBER working papers.

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 your discussion of remedies fit in with the analysis you present (if you propose such remedies).

#### **Topic 1: The US Macroeconomic Outlook and Optimal Policy Response**

Given the world economic slowdown, discuss the options that face U.S. policymakers, in terms of fiscal, monetary and other policies.

The paper should address the following questions:

- How long is the recession likely to be, and relatedly what will be the nature of the recovery?
- What are the policy options currently available, given your answer to the first bullet point?
- What is the macroeconomic model you are using, and what assumptions are you making.

The materials of the Federal Reserve Board (and the Federal Reserve Banks), the CEA and CBO are particularly relevant.

## **Topic 2: The Global Macroeconomy and Policies for Recovery**

Given the world economic slowdown, discuss the options that face policymakers, in terms of fiscal, monetary and other policies.

The paper should address the following questions:

- What is the likely nature of the recovery in various parts of the global economy?
- What is the likelihood of policy coordination, and what will be the nature of that coordination, if it were to occur?
- What are the key open questions (in particular, with regard to either major economies, or key macro aggregates)?
- Are current account surpluses and deficits of the magnitudes seen in the past decade likely to recur?

The most useful sources for this topic are the IMF, the OECD, the Peterson Institute for International Economics.

## **Topic 3: Financial Innovation and Financial Regulation**

Discuss the impact of financial innovations and financial regulation/deregulation in terms of affecting the workings of the macroeconomy, with special respect to risk taking. In order to make the analysis manageable, I suggest you focus on *one* particular aspect.

- Securitization (RMBS, other ABS, CDOs)
- Subprime, Alt-A mortgages
- Credit Default Swaps
- Mark to model
- Bank and financial institution capital regulation (including off-balance sheet issues)

In your analysis, use of data, and support from econometric studies, will be essential. The most useful starting points will be studies from the Bank for International Settlements, the IMF *GFSR*. In addition, *Macroeconomic Stability and Financial Regulation: Key Issues for the G20*, edited by Mathias Dewatripoint, Xavier Freixas and Richard Portes (CEPR, March 2009) might be useful.

<http://www.voxeu.org/index.php?q=node/3167> .

If you wish to add in a policy dimension, you should discuss proposed remedies, and the implications of implementing such measures.

## **Topic 5: Causes of the Asset Boom**

There are several different interpretations of the asset boom that preceded the current recession. They include monetary (lax Fed policy propagated to the rest-of-the-world), excess saving flow from East Asia and oil exporters, and lax regulation/financial innovation. In your paper, discuss:

- What are the theoretical models underpinning each explanation? And
- What is the empirical evidence on each competing view?

In your analysis, use of data, and support from econometric studies, will be essential. Background pieces are on the reading list. More in-depth studies from the Bank for International Settlements, the IMF *WEO* and *GFSR*, as well as working papers, will be useful.

If you wish to add in a policy dimension, you should discuss proposed measures to prevent a recurrence of such asset booms.

### **Topic 6: Long Term Implications of the Financial Crisis**

Discuss the long term economic and/or political economy implications of the financial crisis of 2008-09. In your discussion, you might focus on the following:

- The impact on potential GDP, including capital accumulation, labor force, and technology (total factor productivity).
- The impact on income inequality, including relative wages, or the relative returns to physical capital versus labor.
- The impact on the international trade and foreign direct investment regime, including the degree of offshore outsourcing, further trade integration, and industrial policy.

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