

For Tuesday April 30th

Read “Contours of macroeconomic policy in the future,” by Olivier Blanchard, at <http://blog-imfdirect.imf.org/2015/04/02/contours-of-macroeconomic-policy-in-the-future/>.

Type answers to the following questions and bring them to class.

1. What does Blanchard identify as the accepted explanation of the financial crisis?

Excessive leverage and interconnectedness.

Why does this matter?

2. What is the game of cat and mouse that Blanchard refers to?

You design a macro-prudential regulation, but then financial entities look for new ways to get around them.

What are the normal tasks (traditional mandates) of monetary and fiscal policy that they can go back to?

3. What is the difference between a single mandate for a central bank vs. a dual mandate?

Just control inflation vs. control inflation and keep unemployment low.

Why is a dual mandate tricky?

4. What is the problem with being at the zero lower bound on interest rates?

No room for monetary policy to act.

Where are we today?

5. What happened to the debt-to-GDP ratio as a result of the financial crisis?

It sky-rocketed.

What are the consequences of a high debt-to-GDP ratio?

6. Provide an example of an issue related to fiscal policy.

Unpack the question, “What are the multipliers on fiscal consolidation?”

What is the logic of a fiscal golden rule, separating current account and capital account (not in the sense of the trade data as discussed in Chapter 3, but

7. Provide an example of an issue related to monetary policy.