

ECO 209

Macroeconomic Theory and Policy

Case Study No. 5

Case Study No. 5 on ***Inflation and Interest Rates in the 2000s*** will be discussed in class on Tuesday, July 18. The required short-readings have been posted on the course website. Read these articles and come to class ready for the discussion. The following questions will help you in your preparation:

- 1) What was so extraordinary about the low rates of inflation and low rates of interest observed in the 2000s before the start of the Great Recession?
- 2) What was — in Greenspan's view — the underlying cause of these low rates of inflation during the first half of the 2000s?
- 3) Some opponents of neoliberal globalization view globalization as a race to the lowest denominator. Do you think that Greenspan's views might give support to this pessimistic outlook of globalization?
- 4) What was — in Greenspan's view — the main determinant of the low rates of interest before the start of the Great Recession? What was Bernanke's view in this regard? And Rogoff's?
- 5) According to Rogoff, what theories have been put forward to explain the persistent low rates of interest after the start of the Great Recession?
- 6) Why was Greenspan of the view that the massive current account deficit of the U.S. is not a "huge threat to the international economy"? Why did David Dodge espouse a different view?
- 7) In Greenspan's view, what might cause this period of low inflation to come to an end? Was his 2007 prediction realized? Why or why not?
- 8) What explanation does Feldstein put forward to explain the persistent low rate of inflation despite the Fed's implementation of quantitative easing policy after 2008? What could be done to persuade the banks to start lending more money to the public?
- 9) What is the impact of China's inflation on the American economy? What might happen to the U.S. trade deficit with China? And with the rest of the world?
- 10) What is the main cause of increasing inflation in China? How are Chinese firms reacting to rapidly increasing costs of production? What structural changes do you expect will occur to the Chinese economy over the next 5-10 years?