

ECO 209 Macroeconomic Theory and Policy

Case Study No. 6

Case Study No. 6 on ***Recessions and Monetary Policy*** will be discussed in class on Thursday, July 20. 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) According to Robson, how can the Central Bank help the economy avoid a recession? How can the Central Bank help reduce the impact of a recession? Is timing important in each of these objectives?
- 2) In Robson's view, what are the advantages of expansionary monetary policy over expansionary fiscal policy?
- 3) Why does Robson think that guaranteeing deposits and loans is not the best policy? Why does he think that buying bank assets — exactly what the Canadian and American governments did at that time — is even worse?
- 4) Why does Robson believe that expansionary fiscal policy is not the best policy to help the economy get out of a recession?
- 5) Why does Robson think that sales-tax relief — a policy implemented by the Canadian government — or cheques to households — a policy implemented by the U.S. government — is not effective?
- 6) Why expansionary monetary policy might not have worked in 2008-09 as well as Robson would like us to believe? Why wouldn't an overnight rate of 0.5 have done the trick in 2008-09?
- 7) In Roach's view, why was the Fed's expansionary monetary policy unsuccessful in 2009-2010? What were Blanchard's views in this regard?
- 8) And what about the implementation of expansionary monetary policy in Canada after 2009? Compared to the situation in the U.S., what was different in Canada?
- 9) If the economy is facing a liquidity trap, do you think that there would still be some room for monetary policy? What can be done to avoid getting into a liquidity trap?
- 10) Roach said that "notwithstanding an unprecedented post-crisis tripling of Fed assets ... US consumers have pulled back as never before." To what particular Fed assets is he referring? Why consumption did not increase?
- 11) What did Roach think about monetizing the deficit? And what do you think? Should central banks implement accommodating monetary policy instead? What did Blanchard say in this regard?
- 12) If expansionary monetary policy was not effective at that time, what should the government have done? What was Hodgson and Antunes's policy advice?
- 13) Roach concluded that the current excess liquidity in global asset markets would be the "inevitable" cause of the next crisis. What do you think?