180.101 Elements of Macro - TA Section - Week 10

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Slides on https://github.com/QingyuanFang/TA_ElementsOfMacro

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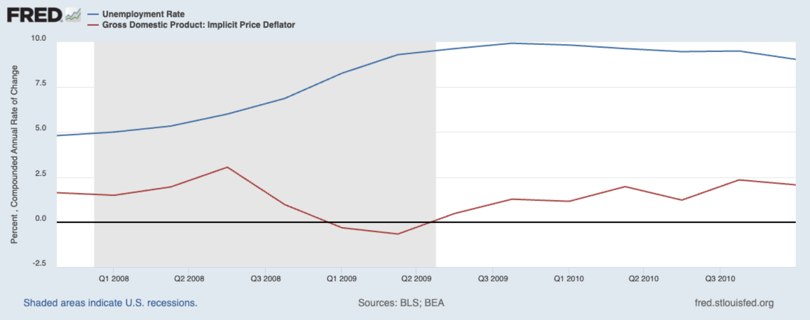
"Missing Deflation"

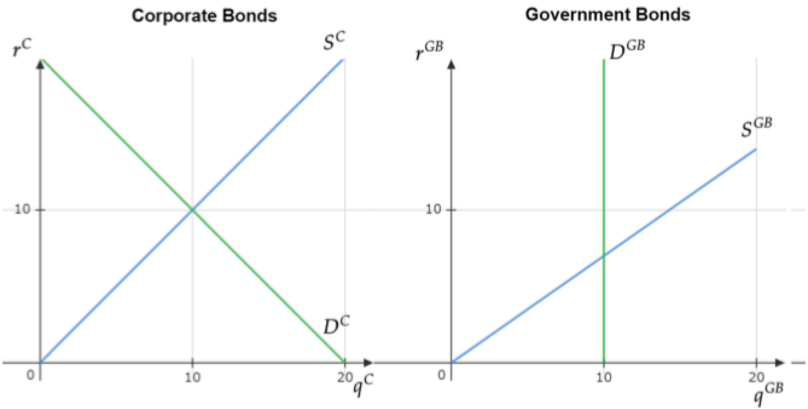
- In the aftermath of the financial crisis, the unemployment rate is so high that according to the Phillips Curve, there should have been negative inflation (deflation). But it was not the case.



- Why?

Loanable Fund Model

- Key assumption: Total available funds supplied by the households are constant



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- **A nationwide increase in household risk appetite.**
  - Given the same amount of funds households are willing to supply, some funds flow from government bonds to corporate bonds market. Supply curve $\leftarrow$ in G market and $\rightarrow$ in C market. Higher lending and lower rate in C and Lower lending and higher rate in G . The risk premium shrinks.

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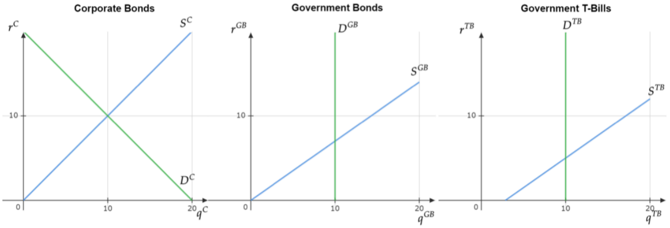
- **A suddent increase of inflation expectations of households.**
  - There will be no changes in the graphs of the loanable fund model! Because the real rates that matter for household/firm decisions stay the same.

What's Next: Extended Loanable Fund Model

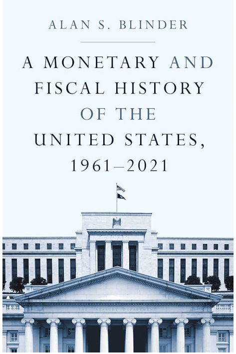
- Household, Firms, Government, **Fed**

	Risk	Duration	Interest rate
Corporate Bonds	**High**	Long Term	Highest
Government Bonds	Low	Long Term	Middle
Government T-Bills	Low	**Short Term**	Lowest



Monetary and Fiscal History of the US.

Blinder, Alan S. "A Monetary and Fiscal History of the United States, 1961-2021." (2022): 1-440.



Bernanke, Ben S. "21st century monetary policy: The Federal Reserve from the great inflation to COVID-19." (2022).