April 14:

How do we verify our model is correct?

- regress $\ln(Y) = \alpha + \beta \Delta x_t$
- x_t is the measure of the stance of monetary policy
  - level of FFR
- Y_t is output / GDP

We might think $\hat{\beta} < 0$, but: it's not!
- St. Louis Eq'n
- They found no correlation between FFR and output

Monetary policy is conducted countercyclically,
So $Y_t \uparrow \to i_t \uparrow \to Y_t \downarrow \to i_t \to Y_t \uparrow \to$ etc.

The rise in output is correlated with high interest rates AND low interest rates

Interest rate shocks reduce output

When to use AS-AD vs. IS-MP w/ phillips curve

AD curve comes from IS curve and policy rule
- only works if central bank is following policy rule
- i.e., at liquidity trap / ZLB, cannot use AS-AD curve

Bubble: unsubstantiated overvaluation of a commodity or asset

- lax lending standards

- Banking Panics:
  - Banks accept demand deposits and lend out
  - channel supply of loanable funds to demand for loanable funds

  - Happened ~ every 10-15 yrs until Great depression, then didn't happen until 2008

  - loss of confidence → bank runs → failures → etc.

  - After Great Depression:
    - bank regulation
    - Deposit insurance