

Keynesians to the Rescue: Unprecedented Policy Responses Towards Unprecedented Macroeconomic Shocks (Evidence from Three Natural Experiments)

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Introduction

Research Background

- Inspired by a series of columns from Barry Eichengreen and Kevin O'Rourke in Vox.eu which shattered readership records in 2009 (*A Tale of Two Depressions*) started on Apr 6, 2009
- Inspired by a column by Paul Krugman in New York Times (*The Great Recession versus the Great Depression*) published on Mar 20, 2009
- Inspired by an article in New York Times (*Rapid Declines in Manufacturing Spread Global Anxiety*) published on Mar 20, 2009

Part I. Fiscal and monetary responses to three major macroeconomic shocks

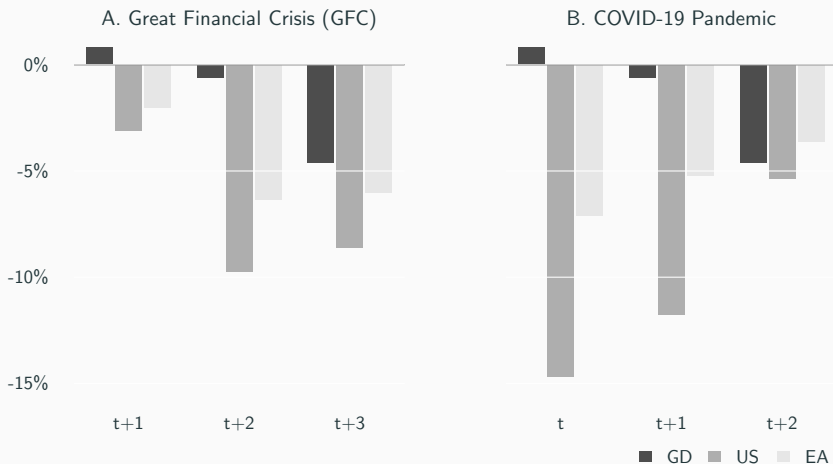
- ➊ Fiscal response in USA and the Euro Area (EA) to the Great Depression of 1929 (baseline scenario), the 2007-2009 Global Financial and Economic Crisis (a.k.a the Great Recession)
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Part II. Macroeconomic outcomes

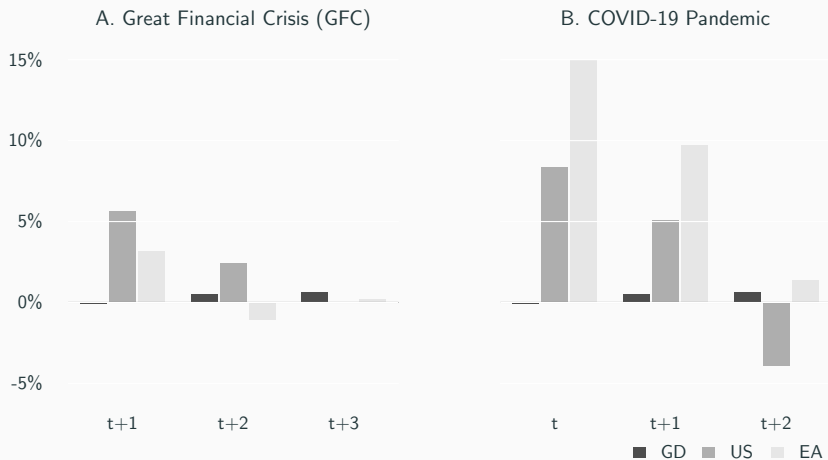
- ① Industrial production in USA and the EA (EA) during the Great Recession and post the COVID-19 pandemic
- ② Employment in USA and the EA (EA) during the Great Recession and post the COVID-19 pandemic
- ③ Stock markets in USA and the EA (EA) during the Great Recession and post the COVID-19 pandemic

Fiscal and Monetary Responses to Three Major Macroeconomic Shocks

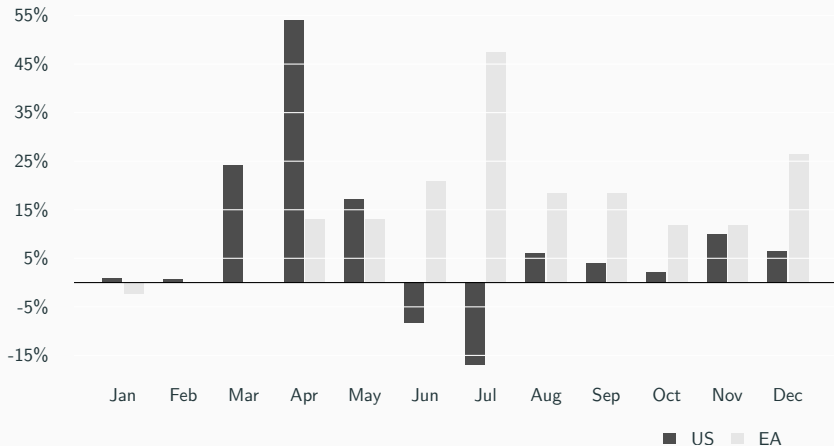
Fiscal Response to the GFC and the COVID-19 Pandemic



Monetary Response to the GFC and the COVID-19 Pandemic



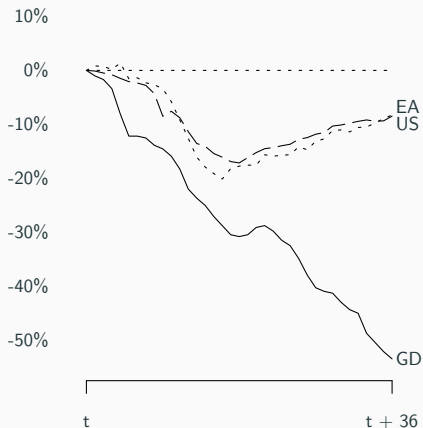
Monetary Response to the COVID-19 Pandemic (Monthly)



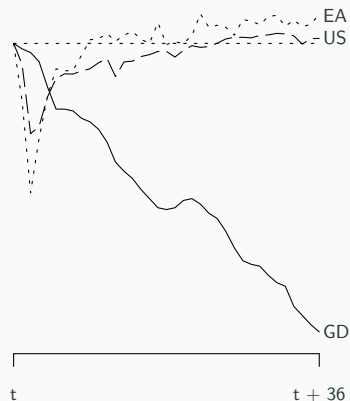
Macroeconomic Outcomes

Industrial Production Post GFC and COVID-19 Pandemic

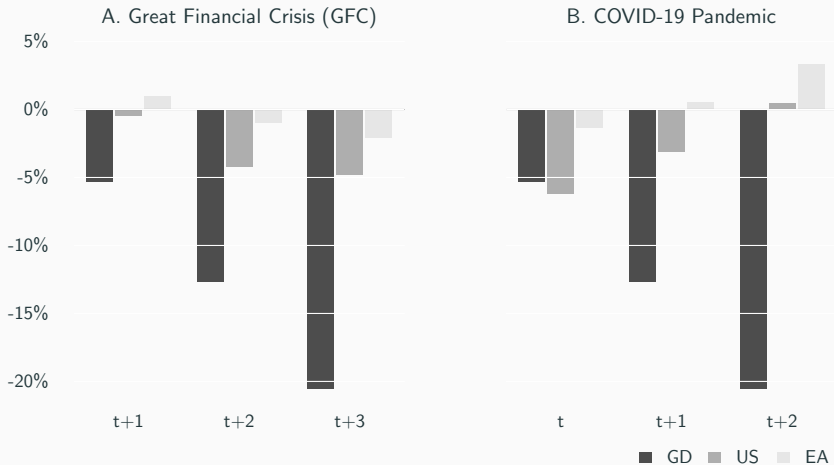
A. Great Financial Crisis (GFC)



B. COVID-19 Pandemic

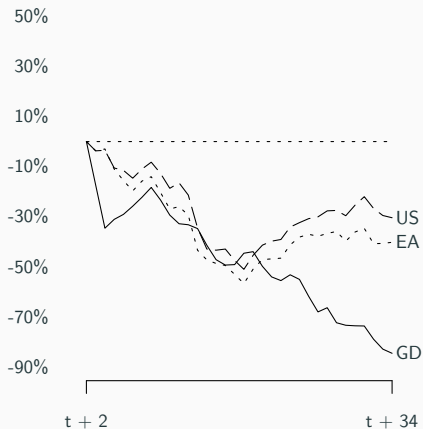


Employment Post GFC and COVID-19 Pandemic

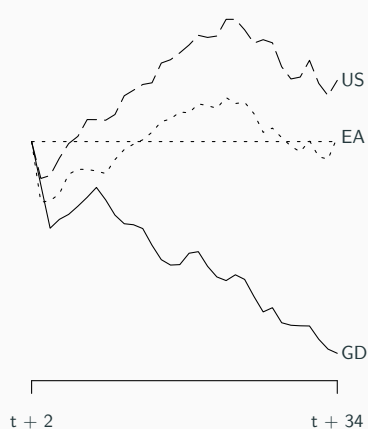


Stock Markets Post GFC and COVID-19 Pandemic

A. Great Financial Crisis (GFC)



B. COVID-19 Pandemic



Speculation in Financial Assets as a Side Effect of Policy Responses

In Search of Higher Returns

John Bull... can stand a great deal, but he cannot stand two per cent... Here the moral obligation arises. People won't take 2 per cent; they won't bear a loss of income. Instead of that dreadful event, they invest their careful savings in something impossible — a canal to Kamchatka, a railway to Watchet, a plan for animating the Dead Sea, a corporation for shipping skates to the Torrid Zone.

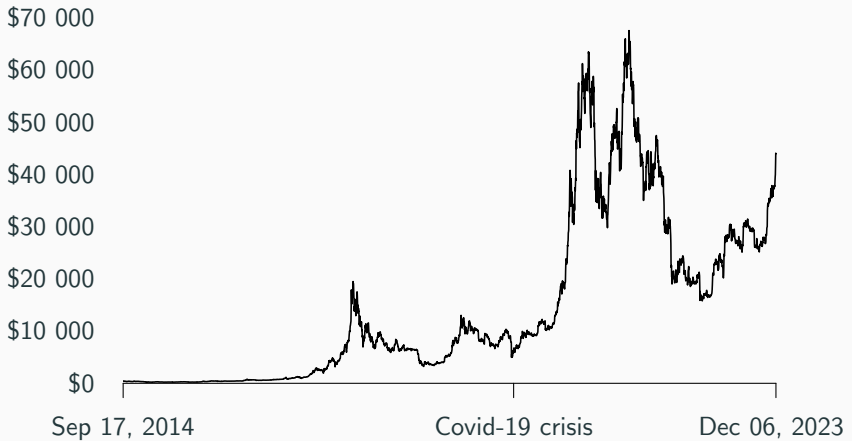
WALTER BAGEHOT

“Bubble” Triangle

Three ingredients of a financial “bubble” (Quinn et. al., 2020)

- Market liquidity
- Money and credit
- Speculative sentiment among investors

Bitcoin Price in USD



Resources

GitHub repository:

<https://github.com/lyuben-ivanov/lille23>

R installation of package lille23:

`devtools::install_github("lyuben-ivanov/lille23")`

Thank you!