Lecture 1: The sum of all fears

Paul Krugman
From Eichengreen and O’Rourke
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This wasn’t supposed to be possible:

“The central problem of depression-prevention has been solved, for all practical purposes.”

Robert Lucas, 2003

And many people said things that look stupid in retrospect ...
“If you want a simple model for predicting the unemployment rate in the United States over the next few years, here it is: It will be what Greenspan wants it to be, plus or minus a random error reflecting the fact that he is not quite God.”

Paul Krugman, 1997
This is not a supply shock ...
Japan’s lost decade

Source: IMF WEO database
Short-term interest rates

Source: Census, Federal Reserve
Source: Bank of Japan, IMF
Money and prices in the Great Depression

Source: BEA, Historical Statistics of the United States, St. Louis Fed
Full employment
Source: Brad Setser
The Fed steps out

Source: Federal Reserve/James Hamilton