Class 29: Discussion of Taylor and Bernanke Articles on Macro Policy during the Past Decade

1. Why, according to John Taylor, did a “Great Deviation” cause the end of the Great Moderation?

   What does Taylor mean by the Great Moderation? What does he mean by a “Great Deviation”?

   What evidence does Taylor offer that monetary policy after 2001 deviated from policy that was successful during the Great Moderation?

   What does Taylor mean by the “Taylor Rule” and how does he use the Taylor rule to argue that monetary policy after 2001 was “off track”?

   How, according to Taylor, did monetary policy contribute to the creation of the housing bubble?

   Why does Taylor believe that fiscal policy interventions taken in response to the onset of the Great Recession were “debt inducing and wasteful” and did little to stimulate GDP?

   What policy would John Taylor have preferred the Federal Reserve and Congress to follow during the years of the Financial Market Crisis and the Great Recession?

2. Why, according to Ben Bernanke, is it reasonable to conclude that monetary policy in the aftermath of 2001 was appropriate?

   What evidence does Bernanke provide for the claim that monetary policy after 2001 did not keep interest rates too low?

   Why, according to Bernanke, is it appropriate to evaluate the prescriptions of the Taylor rule using forecasts of inflation rather than ex-post actual inflation rates?

   What difference does it make, according to Bernanke, to measure inflation with the personal consumption expenditures price index rather than with the CPI?

   Why, according to Bernanke, was monetary policy after 2001 not responsible for the creation of the housing bubble?

   What does Bernanke mean when he says “… the relationship between the stance of monetary policy and house price appreciation is quite weak” (p. 18)?

   What, according to Bernanke, created the housing bubble?

3. Who do you think provides the more accurate assessment of the effects of monetary policy after 2001 and during the Great Recession, Taylor or Bernanke?

   Why?

   What evidence did you find most compelling?