

Macroeconomic Interventions during Covid-19

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May 29, 2020

YOUR 3RD QUARTER OUTSIDE OF STANFORD....

Covid 19 \implies **Toughest Dilemmas for Policy Makers**

- ★ First-time in modern history
 - Macroeconomist: think about life vs. economy
 - Tough challenge: minimize impact

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For you \implies **Life changing event**

- ★ Big opportunities
- ★ But also, great gamble
- ★ ...and btw, policy determines winners and losers

POLICY DISCUSSIONS

Sanitation Policy + Individual Fear \implies **Suppression of Sales in Certain Sectors**

- ★ Let's think of macroeconomic policy as subordinate to sanitation policy...
- ★ Huge sectoral impact:
 - Supply restrictions: social-contact production (food-plants)
 - Demand restrictions: social-prone consumption (services, travel)

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Role of Macro-Stabilization

- ★ Avoid collapse in consumer+investment demand
 - avoid spill-over to non-social sectors
- ★ Avoid losing economy's intangible capital
 - jobs are hard to create! teams are hard to build!
 - but also firm relations, investments in R&D, etc.
- ★ Improve social insurance

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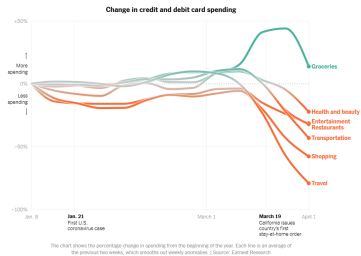
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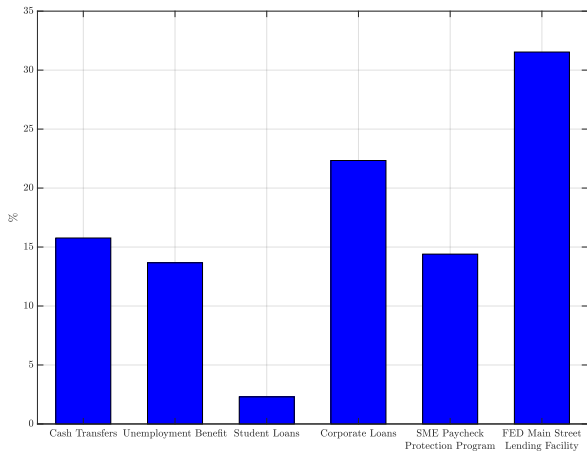
Role of Macro-Stabilization \implies **How to get there?**

SECTORAL RE-ORGANIZATION

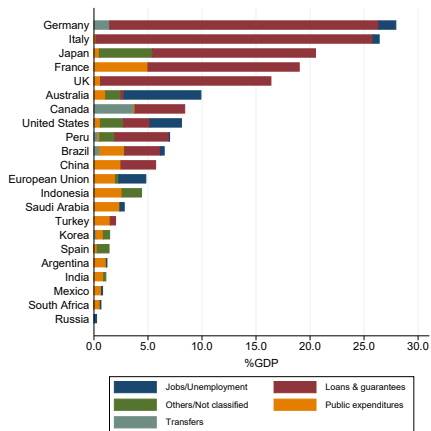
Reuters (APRIL 13, 2020): Amazon to add 100,000 positions and adding new jobs



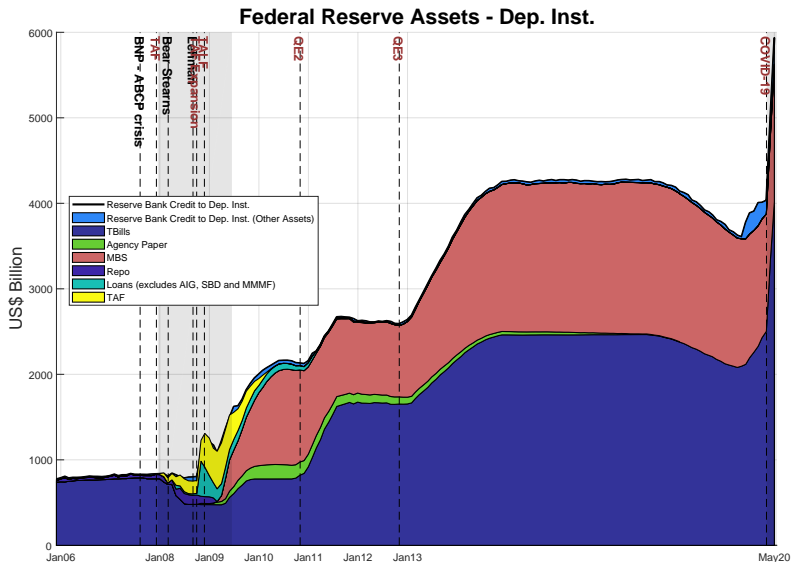
CARES ACT IN THE US



CROSS-COUNTRY RESPONSES



FED BALANCE SHEET



REST OF PRESENTATION

Conceptual framework to think of Monetary Policy \implies **Based on Accounting/Corporate Finance**

- ★ I will just use “descriptive” T-accounts
- ★ explain process of monetary creation
 - monetarism to the vein!

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Describe what the Fed has done \implies **Get a sense of scale**

- ★ Present some evidence that this helps
- ★ Discuss some difficult choices...

OUTLINE FOR SECTION 2

- 1 Environment
Underlying Environment

VALUE CREATION FROM FINANCE

A world of property rights...

- ★ What is the social value of finance?

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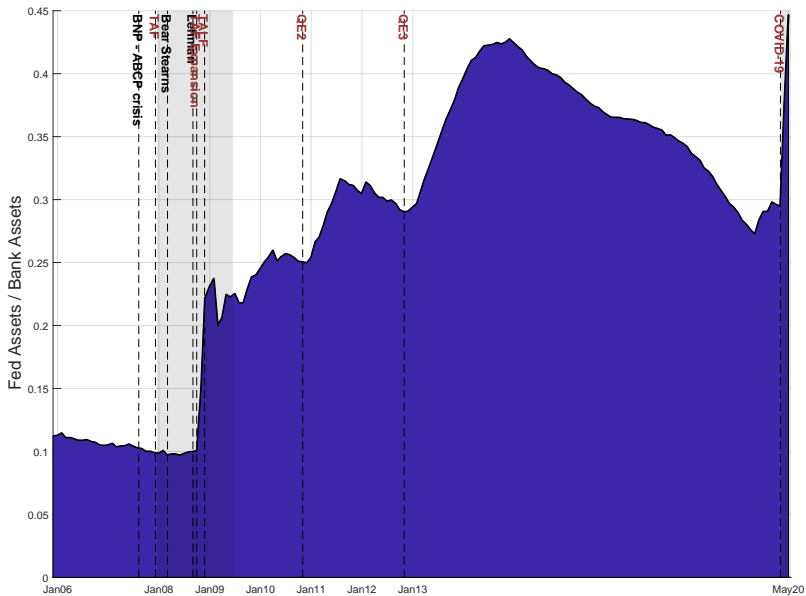
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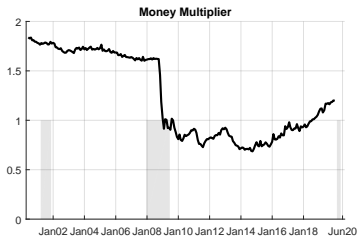
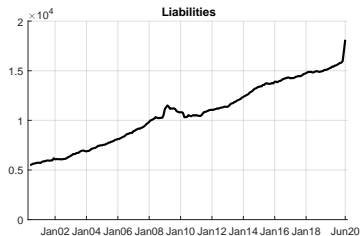
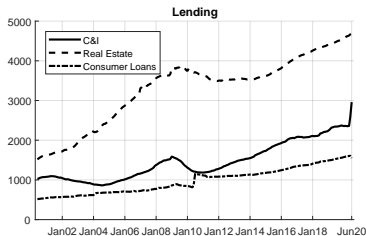
A world of property rights...

- ★ What is the social value of finance?
- ★ How does finance promote economic activity?
- ★ What is Money creation?

FED BALANCE SHEET



BANKING IS WORKING A BIT...



MAIN TAKEAWAY

Fed stimulates credit \implies via process of money creation

- ★ Essential to stabilize the economy

CHALLENGES

Fed is taking on risk \implies

- * Who will pay for that?

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Fed is printing money (reserves) \implies

- ★ Is that inflationary?

MORE CHALLENGES

Missing Sectoral Aspects \implies

- ★ **Bank System:** credit policy channeled through banks
 - how can we guarantee they lend out?
 - capital injections
 - regulatory forbearance?

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Key Economic Aspects \implies

- ★ **Moral Hazard**
 - how can we guarantee Fed buys best assets?
- ★ **How are we gonna pay for all of this?**