Teaching Secular Stagnation

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Teaching Secular Stagnation

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Outline

1. Background
2. Model
3. Concluding Remarks
Background

- Lots of research and policy debate about Secular stagnation following Summers 2013 IMF speech
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- No consensus about how to define Secular Stagnation (VOX EU collection of papers 2014)
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- No consensus about how to define Secular Stagnation (VOX EU collection of papers 2014)
- Summers’ definition: drop in the natural interest rate.
Research Question

How can we modify a simple Neo-Keynesian of the business cycles to teach secular stagnation in Intermediate Macroeconomics courses?
Outline

1. **Background**

2. **Model**

3. **Concluding Remarks**
A simple Keynesian Model of the Business Cycle

IS-PC-MR Model

- Aggregate demand: \( Y_t = \bar{Y}_t - \alpha (r_t - \rho) + \epsilon_t \)
A simple Keynesian Model of the Business Cycle

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- Philips curve: $\pi_t = \pi_{t-1} + \phi(Y_t - \bar{Y}_t) + \nu_t$
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**IS-PC-MR Model**

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- **Taylor rule**: 
  $$i_t = \max\{0, \pi_t + \rho + \theta \pi_t (\pi_t - \pi_t^*) + \theta Y_t (Y_t - \bar{Y}_t)\}$$
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  \]

- Fisher equation: \( r_t = i_t - \pi_t \)
Drop in Natural Interest rate

Presented by Sebastien Buttet, Udayan Roy

Background
Model
Concluding Remarks
Raise inflation target
Outline

1. Background
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Concluding Remarks

- Modified a simple Keynesian model of the business cycle to teach secular stagnation in Intermediate Macroeconomics.
Concluding Remarks

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- Interesting result: Central bank should raise inflation target even when the ZLB is \textit{not} binding to counter deflationary threats.