

Problem Set 3

14.71

Due December 10, 2009

1. The Great Moderation. Explain how each of these groups contributed to the growth of a large housing and financial bubble.

- a) Financial intermediaries
  - b) The Fed
  - c) The government
  - d) Consumers
  - e) The Chinese
2. “All crises are the same.”
- a) How is the financial crisis of 2008 like previous crises in general?
  - b) How were the financial crises of 2008 like the crises of 1931?
  - c) How is our current economic condition like the Great Depression?
  - d) How is our current economic condition like Japan in the 1990s?
  - e) How was the 2008 crisis like the Asian crises of 1997?
3. “Each crisis is different.”
- a) How were the financial crises of 2008 different from the crises of 1931?
  - b) How is our current condition different from Japan in the 1990s?
  - c) Why did we have a banking crisis in 2008 rather than a currency crisis?
  - d) Why did China hold on to its dollar reserves in 2008?
  - e) How can we end the trade imbalance between China and the US?

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