Problem Set 2

14.71

Due November 12, 2009

1. The Golden Age
   a) What and when was The Golden Age of Economic Growth?
   b) What caused it to start?
   c) What caused it to end?
   d) Why were there no financial crises during The Golden Age?
   e) How are the absence of financial crises and economic equality linked?

2. The 1970s
   a) What and when were the oil crises of the 1970s?
   b) Why did the US not have a financial crisis in the 1970s?
   c) How did the US economy fare after the first oil crisis?
   d) Why did the US economy fare differently after the oil crises around 2000?
   e) Explain briefly why the events of the 1970s were a challenge for economic theory and how economists responded.

3. The 1990s
   a) What led to the Japanese crisis and the lost decade of the 1990s?
   b) What does Koo mean by a “balance sheet recession”?
   c) Which macroeconomic policies work and don’t work in a balance sheet recession?
   d) Explain the difference between a balance sheet recession and a liquidity trap.
   e) Briefly discuss the pros and cons of Krugman’s policy proposal for Japan.
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