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?