Outline

1. High Labor Productivity.
2. Britain after WWI.
3. Great Depression in 1930s.
4. Pe
   (i) No M-policy response
   (ii) With M-policy response.
   Central Banks everywhere are obsessed with "managing expectations"
   "keepin expectations anchored".
5. Stabilization Policy.
   (a) Lack of information.
   (b) Lucas critique
   (c) Time consistency Nobel prize
       (Kydland - Prescott).
\[ Y = N \]

Temporarily: \[ Y = a \cdot N \]

\[ \frac{W}{P} \]

\[ P = P \]

\[ F(u, z) \]

\[ u_n \]

\[ u = \frac{U}{L} = \frac{L - N}{L} \]

\[ = 1 - \frac{N}{L} = 1 - \frac{Y}{aL} \]

\[ a \neq u_n. \]

\[ a \uparrow \text{No effect on } u. \]

\[ \text{Raised } Y_n. \]

\[ P \downarrow \text{Remains below } AD \]

\[ Y = 100 \]

\[ a = 1 \]

\[ a = 2 \]
\[ C + I + G = Y \]

We get expansion demand by reduction in \( P \).

Problem: \( P \) does not fall fast enough.
A "technology shock" is a generally good thing.

Lose

Losers: opportunity to stand in ways.

It's dangerous if too much with a role for policy to minimize impact on losers.

Obvious retraining programs.

\( M \text{-policy. Problem of } \)

There is evidence that US monetary policy works in this way. Post 2000, US M-policy very expansive
Britain after WWII.

(a) Churchill - Keynes debate.

(3) Position
After war, in medium run, assuming M↑ has not been reversed.

Gold standard, maintain particular price for gold, Britain pounds.
M↑ had made price of gold go up.
Churchill: gold standard is foundation of Western Civilization.
1920

Vigorous restoration of gold standard

Move ① → ③

Sharp ML

Hit gold standard right away.
Analysis of G. B. in 1920's
Keynes was right.

What happened to Britain?

Changes in cost of living.
Improvements in power of workers.

Before WWI, firms could sue workers for damages due to strikes. Legislation changed this.

Before WWI.

After war, unemployment benefits high. (Presumably, because unemployment benefits in Britain were improved more than in rest of Europe), and this was reason for Britain's troubles.
Improvement in power of workers.

Where economy goes has to do with disequilibrium, dynamics, and goods market, asset markets.