Outline

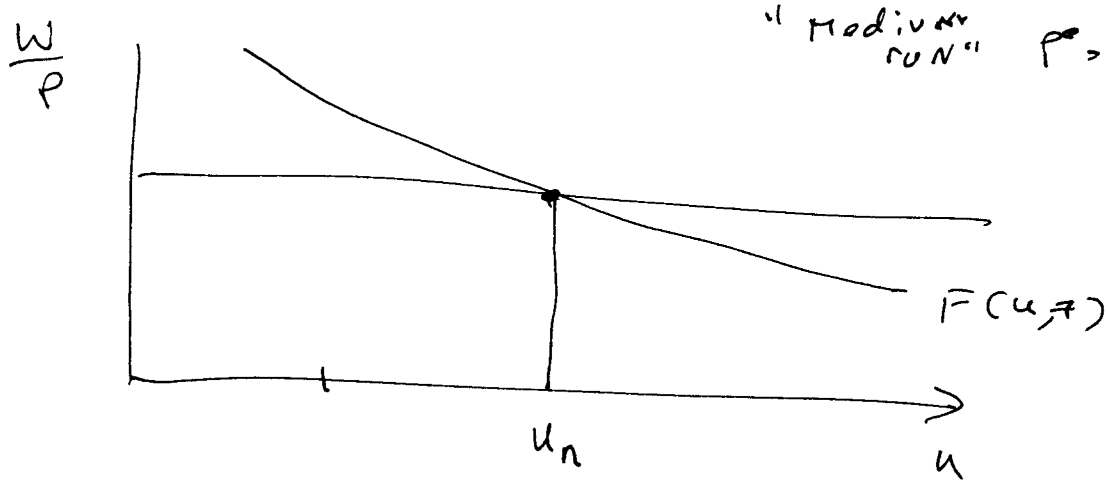
1. High Labor Productivity.
2. Britain after WWI.
3. Great Depression in 1930s.
4. $P^e \uparrow$
   (i) No M-policy response
   (ii) with M-policy response.

   Central Banks everywhere are obsessed with "managing expectations" "keepin expectations anchored"...
5. Stabilization Policy.
   (a) ~~[illegible]~~ Lack of information.
   (b) Lucas critique
   (c) Time Consistency Nobel ~~[illegible]~~ prize (Kydland - Prescott).

$Y = N$

Temporarily: $Y = aN$

"Medium run" $P^e = P$



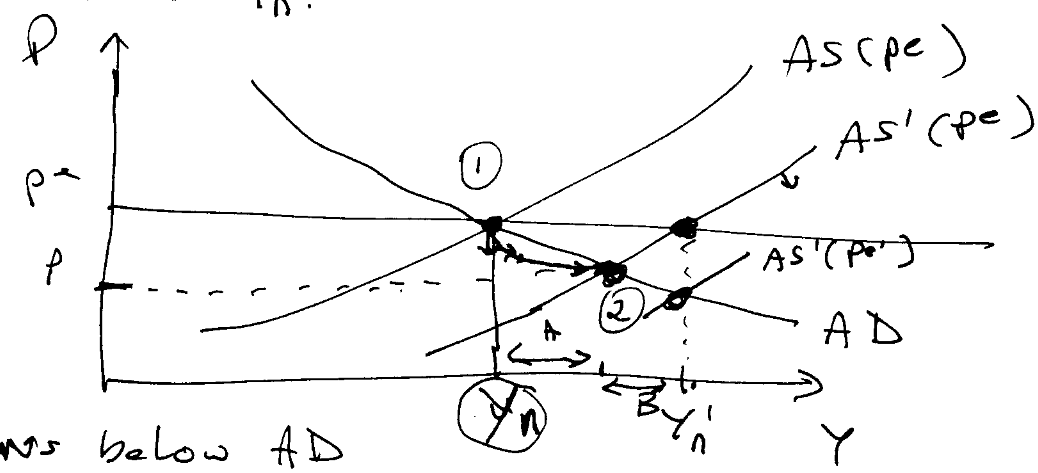
$\Delta a \not\Rightarrow u_n$.

$$u = \frac{U}{L} = \frac{L - N}{L}$$

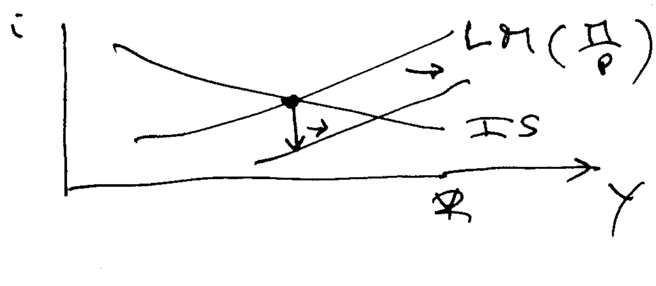
$$= 1 - \frac{N}{L} = 1 - \frac{Y}{aL}$$

$a \uparrow$ No effect on u.

raises Y_n.



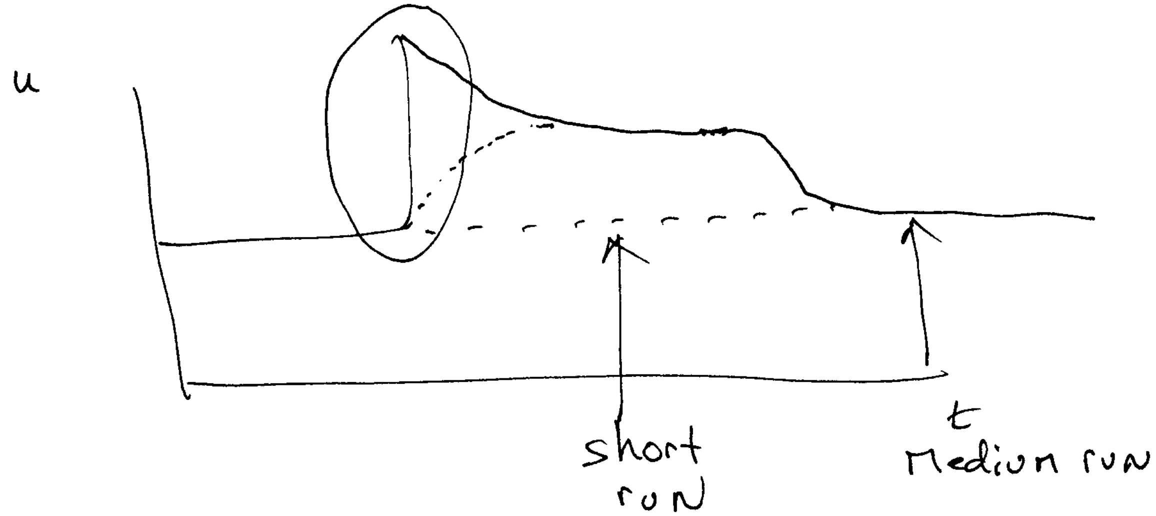
P↓ means below AD

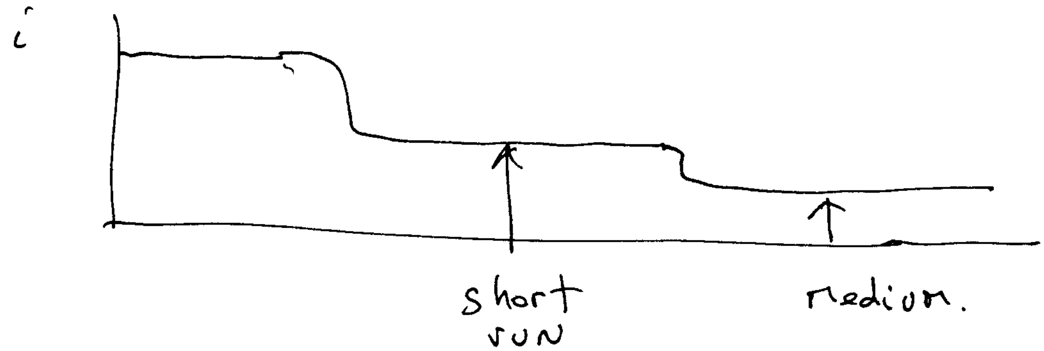


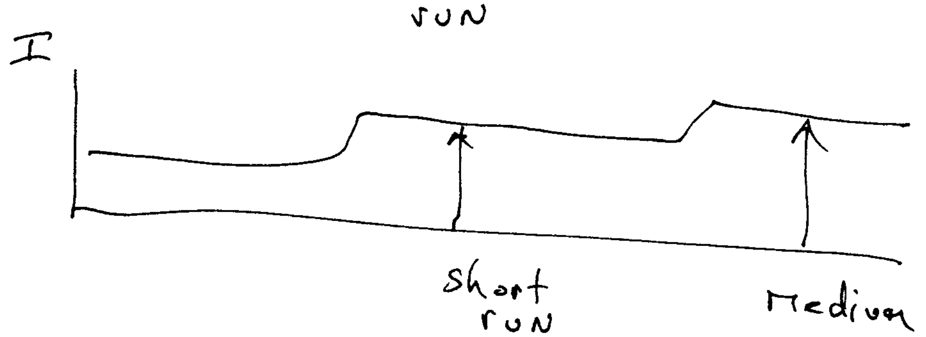
$Y_n = 100$

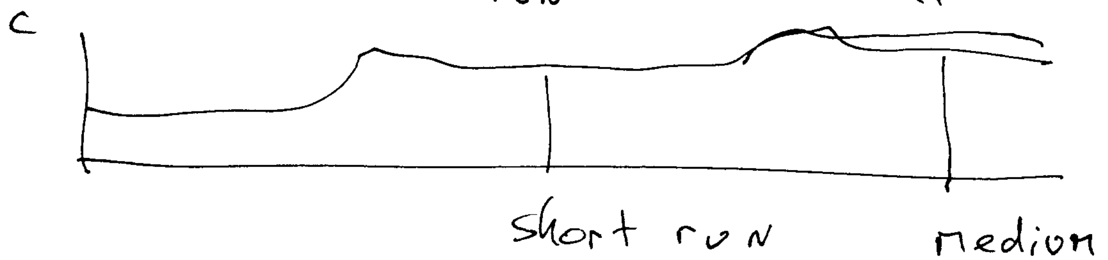
$a = 1$

$a = 2$









$$\overset{\uparrow}{C} + \overset{\uparrow}{I} + G = \underset{100}{Y}$$

We get expansion demand by reduction in P.

Problem: P does not fall fast enough.

a ↑ "technology shock".

a ↑ ~~genrl~~ generally good thing.

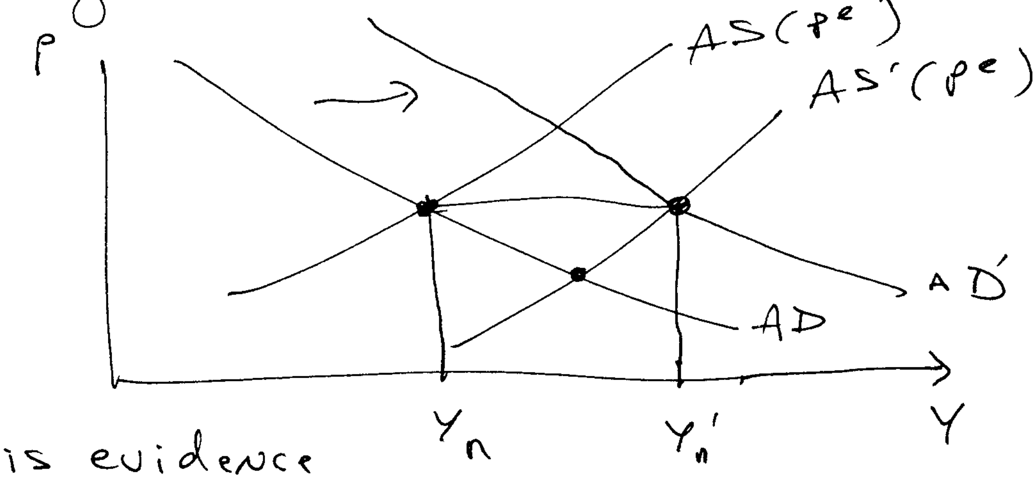
Losers

Losers: opportunity to stand in way.

It's dangerous if U ↑ too much with a ↑. Role for policy to minimize impact on Losers.

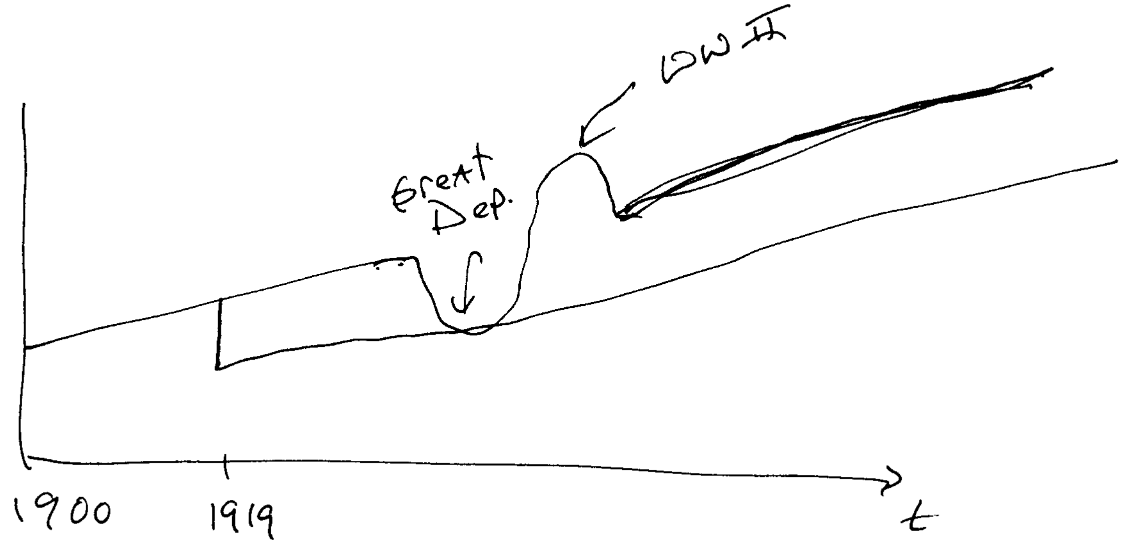
Obvious ~ retraining programs.

M-policy. Problem of a ↑

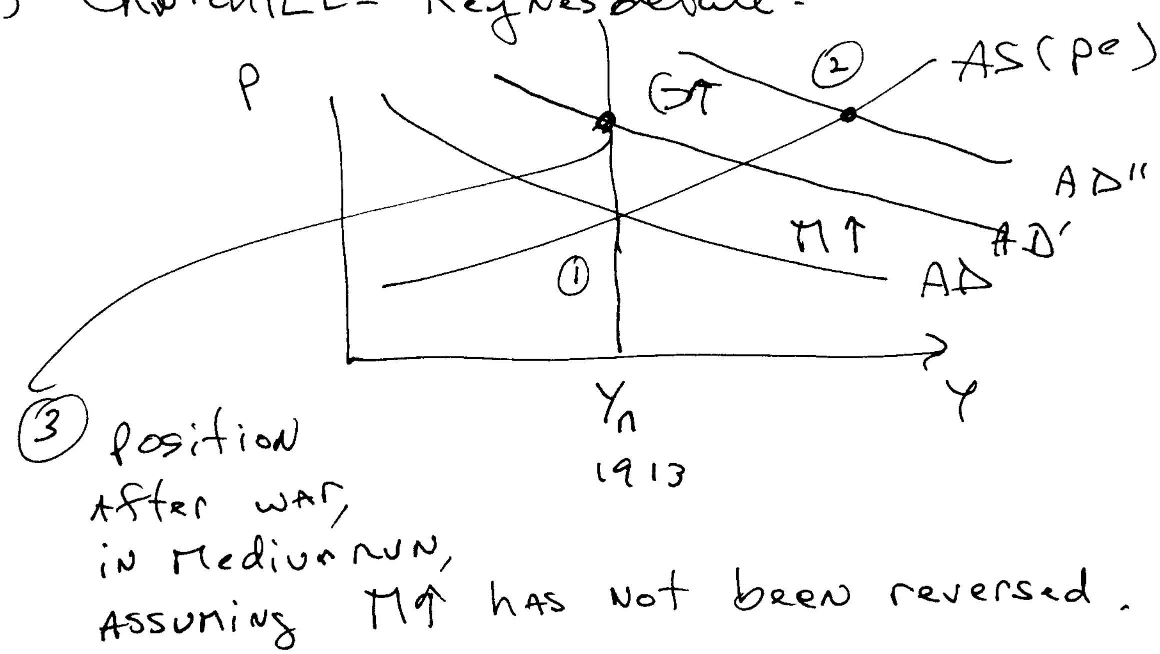


There is evidence that US monetary policy works in this way. Post 2000, US. M-policy very expansive

Britain after WWI.



(a) Churchill- Keynes debate.

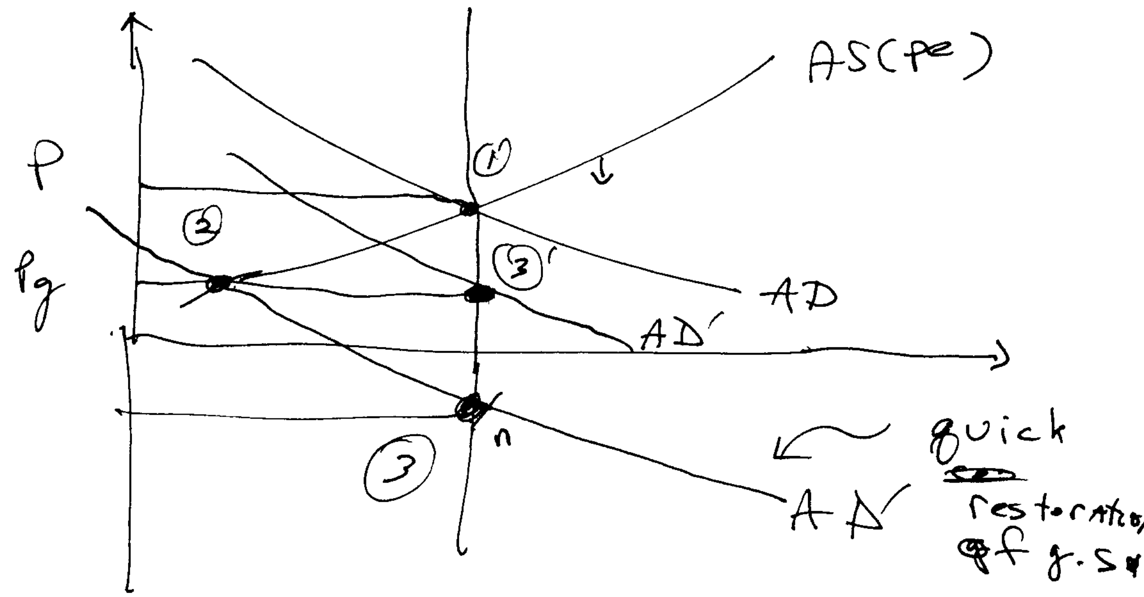


Gold standard. maintain particular price for gold, Britain pounds.

M↑ had made price of gold go up.

Churchill: gold standard is foundation of Western Civilization.

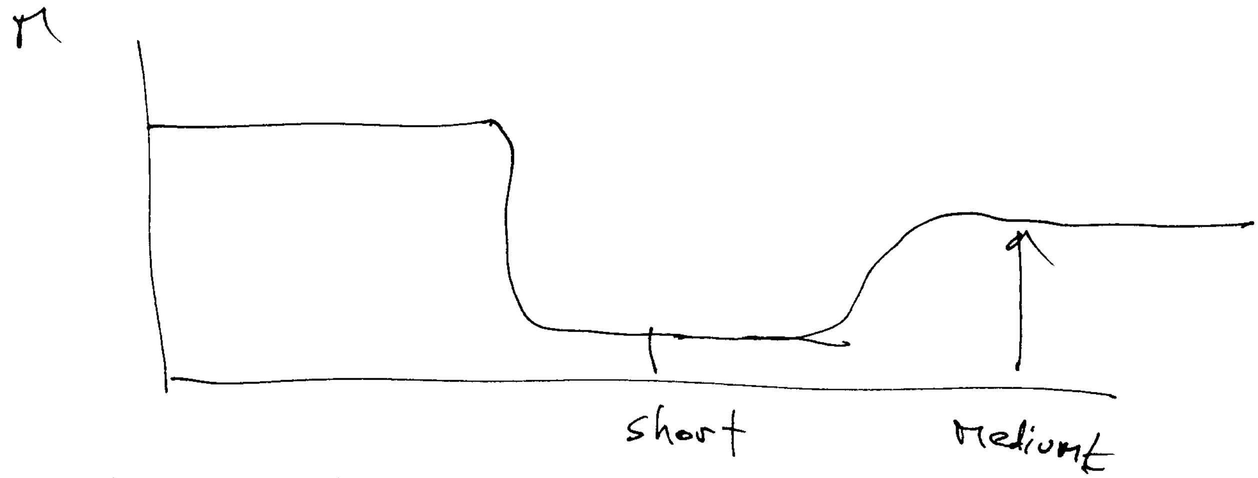
1920



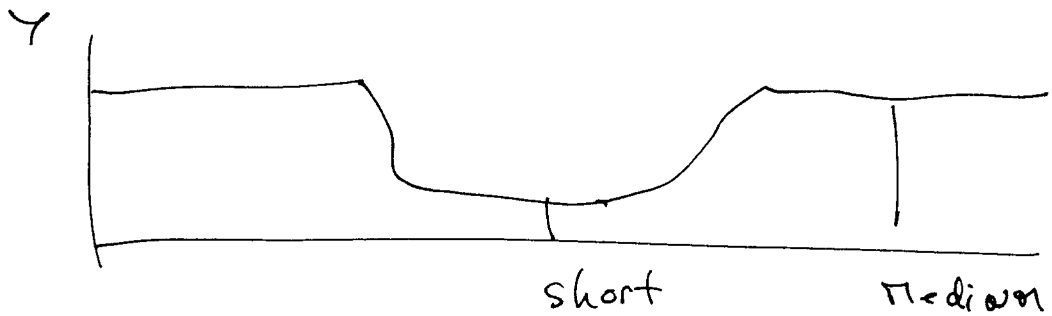
Vigorous restoration of gold standard

move (1) → (2) → (3)'

sharp M↓



Hit gold standard right away.



Analysis of G. B. in 1920's

Keynes was right.

What happened to Britain?

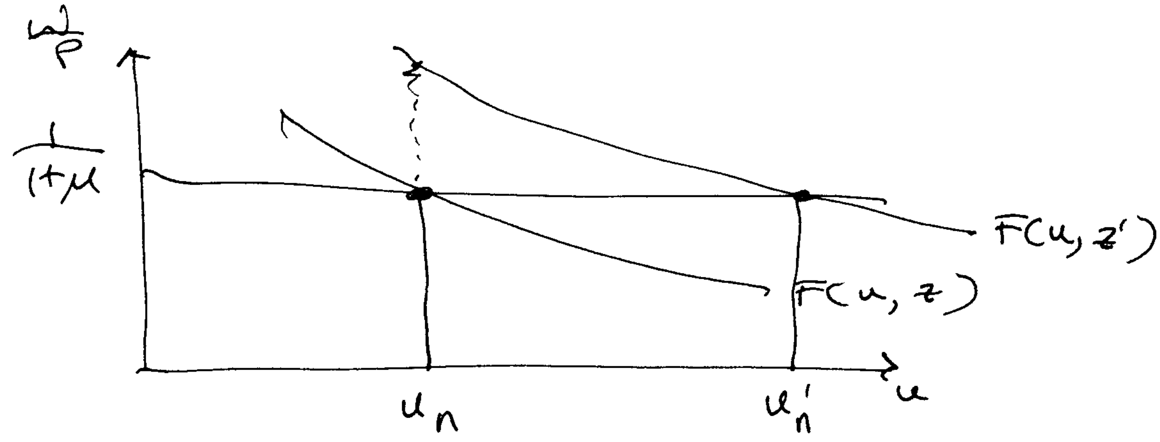
~~Changes in cost of UN~~

Improvements in power of workers.

Before WWI, firms could sue workers for damages due to strikes. Legislation changes ~~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 ~~troub~~ troubles.

Improvement in power of workers.



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