

EC538 ECONOMIC CONTROVERSIES
CREDIT CYCLES AND MACROPRUDENTIAL POLICY

COURSE PLAN

WORKSHOP

The workshop is structured as a lecture in three parts:

1. Stylised facts of credit cycles.
2. The theory of credit cycles.
3. Policy and institutions.

TUTORIAL

What should the stance of macroprudential policy be right now?

Despite slow economic growth since the Great Recession, debt levels are still high in many economies. Should macroprudential policymakers in January 2017 pursue an accommodative stance, encouraging credit expansion, or a tightening stance, discouraging credit expansion?

We will focus on the UK, but also consider a small selection of other countries. The aim of this tutorial is to attempt to come face to face with the challenges of (1) identifying unsustainable from sustainable credit growth in real time, and (2) taking into account the potential consequences of macroprudential policy actions on the distributions of income and wealth.

ASSESSMENT

NON-TECHNICAL SUMMARY (1 000 WORDS)

For the non-technical summary, you're expected to provide an overview of the controversy, written for an educated but lay audience. You may wish to take a trial subscription of the FT or The Economist. Given the short word limit, I would encourage students to pick one part of the controversy to focus on. For example, you could focus on the political/institutional issues relating to macroprudential policy. Alternatively, you could focus on our knowledge and understanding (or lack thereof) of the market failures associated with credit cycles.

EXTENDED ESSAY (4 000 WORDS)

The over-arching question of this controversy is to ask whether governments should act to limit credit expansions in good times. Within this course, we explore a series of important issues that help bring us closer to an answer. First, we look at the data and consider measurement issues. Second, we analyse one (of many) theories of market failure in the macroeconomics of credit expansions. Third, we consider what policy responses might look like in the context of institutional constraints.

For your extended essay, I suggest that you focus on one of these issues. For example, your essay might focus on whether or not it should be central banks who implement macroprudential policy. Alternatively, your essay might explore the theory of credit cycles, comparing it with alternative theories of market failure in credit markets, for example herding.