May 2020

recitation_IS19_20160420_Seg02.pdf

Participants: IS19 (blue shirt), S1 (male student, not pictured), S2 (male student, black baseball cap)

Context: IS19 is teaching a recitation at the whiteboard.

0:00
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xxx IS19:  without (the math first),
xxx        uh to (mitigate) uh difficulties.
xxx        so.
xxx        (.3)
xxx        how to handle this difficulties with the- (.)
xxx        with the active (.) uh policy.
xxx        so basically what uh we can use some
xxx        automatic stabilizer.
xxx        ((pause to write))
xxx        this automatic stabilizers means (.) some policies or
xxx        institutions that (.)
xxx        will uh automatically uh stabilize the economy,
xxx        to sim- stimulate or depress the economy,
xxx        without uh t- conducting some certain policies
xxx        when we are (facing) some specific (shocks).
xxx        so: f-
xxx        uh
xxx        ((pause to erase))
xxx        one of the examples of this (.) stabilizers is the (.)
xxx        income tax.
xxx        ((pause to write))
xxx        so for example if we have a (.1) positive shock (.2)
xxx        for the i s curve.
xxx        and (may cause) this curve to (.) shift to the right,
xxx        (.2)
xxx        then this (.) uh:
xxx        as we can see this income level will increase.
xxx        but if we have some income tax,
xxx        then the increase in the (.) income (may) cause a-
xxx        may also cause an increase in the tax.
xxx        that means this
xxx        i s curve will shift back to the left a little bit.
xxx        (.4)
xxx        that means this uh (.)
xxx        this income level will not increase that much.
xxx        so it may stabilize the economy in this sense.
xxx        and another stabilizer may be the (.)
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xxx unemployment-
xxx ((pause))
xxx unemployment insurance.
xxx (.3)
xxx so.
xxx again using this i s ((undecipherable)) model,
xxx if we have a shock that shift this i s curve,
xxx (will) uh shift uh to the left.
xxx (.3)
xxx then we can see our income will also decrease.
xxx to a certain level.
xxx (that's a) y two.
xxx but if we have a unemployment insurance,
xxx the un- I mean the consumption of the unemployment
(workers)
xxx will not (.) decrease that much.
xxx so
xxx that means relatively the consumption will (.) increase.
xxx so
xxx (.3)
xxx again this i s curve will not shift that much.
xxx so it may go back a little bit.
xxx (.2)
xxx so actually under this insurance,
3:00
xxx what we got is a-
xxx (.3)
xxx it's an income level of y three,
xxx which is (.3) greater than- (.3)
xxx greater than the one without this insurance.
xxx so again it will (.) mitigate the fluctuation
xxx and stabilize the economy.
xxx ((pause))
xxx so that's for question two and for question three↑
xxx ((pause))
xxx for question (.) three basically we need to (.) tell the
xxx difference between the (.1) policy by (rules) and the
policy
xxx by (discretion).
xxx so first what is the meaning for
xxx (.2)
xxx a policy by rules?
xxx ((pause to write))
xxx policy by rules means in a- in advance we: (.1)
xxx I mean we announce some policies.

xxx and after we
xxx after we are facing some specific shocks,
xxx we just commit ourselves and follow the rules.
xxx ((pause))
xxx S1: ((clears throat))
xxx IS19: a:nd
xxx second we need (.)
xxx an example for (.)
xxx (active) policy rule
xxx a:nd passive policy rule.
xxx so active and
xxx ((writing pause)) passive policy rule.
xxx ((pause))
xxx so for example we may have a:
xxx mandatory policy rule that target on the (.) inflation rate.
xxx so for example this is- the x axis is a time period,
xxx and the y axis is (.) the inflation in the economy. (.1)
xxx so,
xxx the (flat) means that uh-uh: inflation rate at two percent,
xxx and (.) (then we set a) range,
xxx so if the (.1)
xxx inflation fluctuate inside this range, then (.)
xxx everything is fine.
xxx but if the-
xxx uh if the fluctuation go out of this range,
xxx then we may come into the active or uh- passive policy rule.
xxx so if the (effect) respond immediately,
xxx when they are face- when this inflation rate fluctuates out
xxx of this range,
xxx then it is called a active policy rule.
xxx and if the (effect) doesn’t (.)
xxx you know respond immediately and
xx wait for a while to see that if the inflation will go back
xxx to this-
xxx to this range,
xxx then (.) it is a passive policy rule.
xxx (.2)
xxx so again,
xxx remember this active and (.) passive only occurs when we
xxx consider in the timing of the policy.
xxx whether we respond immediately or respond after a while.
6:01
xxx ((pause))

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xxx        a:nd
xxx        again we (.) then we need a (.) argument
xxx        for and against the policy by (.) discretion.
xxx        ((pause))
xxx        for and against.
xxx        (.2)
xxx        so the policy by discretion means that-
xxx        I mean ((undecipherable)) we do not have any rules for the
xxx        policy.
xxx        and
xxx        the policy maker just used their own- uh their own judgment
xxx        when they are facing certain (.) pr- uh certain shocks or
xxx        and there's um situations.
xxx        so,
xxx        one of the advantage is that,
xxx        so,
xxx        usually it is very hard to find a rule that i-
xxx        that will work for any shocks.
xxx        so,
xxx        (.2)
xxx        it may be: beneficial if we can conduct a policy when we
are
xxx        facing- (.)
xxx        I mean different situations.
xxx        so.
xxx        ((pause))
xxx        (I mean) yes this is one of the advantage.
xxx        because sometimes we need to modify our policy
xxx        to adjust to some (.) uh to specific shocks.
xxx        a:nd-
xxx        (.3)
xxx        then it is uh- it is the disadvantage.
xxx        so one of the disa-advantages is the issue of timing
xxx        consistency.
xxx        ((pause to write))
xxx        so (time) means (.) uh
xxx        the policy maker or the government may announce a policy
(.)
xxx        before hand,
xxx        and then after some (.) certain uh event happens,
xxx        some certain event take place,
xxx        then they may change their policy.
xxx        so that m-ay do harm cre- credibility of the government.
xxx        so.
xxx        (.2)
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xxx         it may cause-
xxx         it may do harm- it may (.) impact on the welfare of the
xxx         whole society.
xxx         ((pause))
xxx         a:nd
xxx         the other problem may be a- (.2)
xxx         a kind of corruption, because
xxx         uh: usually there may be a kind of inconsistency between
the
xxx         interest of the public and the interest of the politicians.
xxx         so the politicians or- or the policy makers may
xxx         conduct some policies that maximize their own profit,
xxx         not the welfare of the whole society.
xxx         so it is uh
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9:00

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xxx         something like
xxx         the moral hazard or the-
xxx         or some- ((undecipherable)) uh politician (.) economic
xxx         cycle.
xxx         so.
xxx         any- for more details you can read the text-textbook.
xxx         ((pause))
xxx         okay so.
xxx         that's all for the- (.1)
xxx         for today's recitation, so.
xxx         you have any (.) questions?
xxx         ((pause))
xxx         so we are done now so see you at next week.
xxx         ((pause))
xxx S2:     ((undecipherable))
xxx IS19:   (past homework)?
xxx S2:     yes.
xxx IS19:   uh: is this (yours).
xxx         ((pause))
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