Notes on TheMoneyIllusion; February 2009 - August 2012

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- Premise 1: The only coherent way of characterizing monetary policy as being either too “easy” or “tight” is relative to the policy stance expected to achieve the central bank’s goals. - Lars Svensson
- Premise 2: “Monetary policy can be highly effective in reviving a weak economy even if short-term interest rates are already near zero.” - Mishkin's textbook
- Premise 3: After mid-2008, and especially in early October, the expected growth in the price level and nominal GDP fell increasingly far below the Fed’s implicit target.

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- 10/6/2008: Fed begins paying interest on reserves
- Similar to the Fed doubling reserve requirements in 1936-37
- Reduces the money multiplier, which is the last thing you want to do in a recession

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- FDR's high wage policy was a disaster

http://www.themoneyillusion.com/?p=61

- What if conventional monetary policy isn't effective because T-bills yield zero?
- Fed should announce that it will buy anything and everything to hit target

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- Fed should just keep buying assets until the forecast hits the target

http://www.themoneyillusion.com/?p=77

- What would really tight money look like?
- Eventually the real return of holding cash would rise to implausible levels (expected future deflation)
- Example: 3% expected deflation
    - As long as real interest rates are below 3% the policy would produce zero percent nominal interest rates

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- Future expected growth in AD is one of the most important determinants of near term growth in AD

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- Argument that depressions/recessions are a necessary price to pay for previous excesses in spending and borrowing
    - This "puritan" argument doesn't make sense for an economy facing deflation/too low inflation

http://www.themoneyillusion.com/?p=104

- Falling AD is a symptom of monetary policy that isn't accommodative enough

http://www.themoneyillusion.com/?p=120

- Fed should target nGDP futures

http://www.themoneyillusion.com/?p=127

- Rational expectations
- Need to follow several asset prices to get the whole picture
    - Liquidity effect
        - Ms up -> i
    - Income effect
        - Ms up -> i down -> Y up
    - Price level effect
    - Expected inflation effect

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- Are we facing an adverse technology shock?

http://www.themoneyillusion.com/?p=203

- Austrian and Keynesian views on the Great Depression are wrong
    - Should have been more expansionary monetary policy
- Interest rates are a misleading indicator of monetary policy
    - If Ms is falling then policy is tight even if rates are also falling
    - Need to look at changes in the rate of inflation (but be careful of supply shocks)

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- Keynes' *General Theory* is focused on AD
- The "long run" isn't the distant future and the "short run" isn't the near future: right now is the long run from a past action
- Liquidity trap critique: if monetary policy has a long run effect on nominal spending, then in principle there should be no "trap" as monetary expansion would raise the expected rate of inflation and depress real interest rates at the zero bound
- The only real contribution in the GT was the idea of extreme liquidity preference
- Krugman tried to integrate liquidity traps with ratex to get "expectations traps"
    - Temporary increases in Ms will be hoarded, leaving AD almost unchanged
    - Sumner: "but this would apply even more to budget deficits, which unlike Ms increases MUST be temporary"

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- People don't understand liquidity traps
- GD liquidity trap issues were due to gold standard

- Japan's "liquidity trap"
    - BoJ could have depreciated currency
        - But what if they were afraid of foreign reactions?
        - This would be similar to the Fed's problem in 1932, an exchange rate constraint on policy
    - Why did the BoJ raise rates in 2000 and 2006 despite a falling GDP deflator?
    - Why was the 1/4 point cut in late 2008 such a difficult decision?
        - At some point we have to conclude that the deflation experienced from 1994 to today reflects the BoJ's policy preference
    - Krugman's "expectations trap" model suggests that the BoJ was a prisoner to its conservative reputation
- nGDP falling at a 10% rate (February 2009) is causing the financial crisis

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- The current depression was caused by tight monetary policy
    1. Problem was misdiagnosed
        a. Subprime was unexpectedly bad, but still sector-specific
        b. One year later the nature of the crisis changed suddenly
        c. Started out as a financial crisis will little impact on nGDP, became a massive collapse in AD after July 2008
        d. Nominal spending had been holding up pretty well until July, then prices and output began falling in a wide range of industries with the root cause being a failure of monetary policy
        e. Bank bailouts didn't work because they didn't fix the decline in nominal spending
    2. Not enough attention paid to nGDP
        a. Economists focus on real output and prices asymmetrically
        b. Central bank doesn't directly control either variable, but affects each through the impact of monetary policy on nominal spending
        c. It is easy to overlook the role of monetary policy of you focus on prices and output separately
            i. 4Q08 nGDP fell 5% but prices were stable
            ii. Fed implicitly targets 5% nGDP (3% real + 2% inflation) so 2008 was 10% below trend
    3. Reversed causality
        a. Economists assume the depression was caused by the financial crisis, but nGDP was growing over 3% a year after the onset
        b. An unexpected decline in nGDP puts stress on the banking system because it is based on nominal debt
            i. Banks were highly leveraged in expectation that the Great Moderation would continue and that central banks would never allow plunging nGDP like in the 1930s again
            ii. Financial system was already hit by the subprime crisis in 2007
    4. Assuming that monetary policy has been expansionary

    a. Economists only look at the sharp fall in interest rates and sharp rise in the monetary base and assume policy has been expansionary
        i. Fed did both in the 1930s too
    b. Highly contractionary policy will generate deflationary expectations and drive nominal rates toward zero, driving up real demand for bank reserves
5. Monetary policy was backward-looking
    a. Lagging 12 month inflation rates were high due to a supply shock (oil prices)
    b. People view the markets as irrational, but the October 2008 crash foresaw a drop in future AD, just like in October 1929 and October 1937
    c. Effective policy must be forward looking
6. Liquidity trap fallacy
    a. Monetary policy is highly effective even when rates are zero
7. Irrational fear of hyperinflation
    a. People are afraid of overshooting the target
    b. People look at the Fed balance sheet and are worried about what it would take to actually change expectations
        i. This fear is partly based on a mistaken concern over policy lags
        ii. In fact, an effective forward looking policy would've involved a much smaller increase in the base
        iii. Don't confuse cause and effect: the huge increase in the real demand for bank reserves is an effect of the deflationary policy (and IOR), not an indicator of policy ease

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- CIGNX is deceptive

http://www.themoneyillusion.com/?p=333

- "the real problem is housing/banking/whatever"
    - Only believable if you can show that it would somehow prevent the Fed from keeping nGDP at 5%
    - Doesn't mean that sectors don't matter, and sectoral shocks could affect productivity but there's nothing that monetary policy or demand-side fiscal policy can do about that

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- Post on George Warren
- Lessons from 1933
    a. Policy lags aren't that big of an issue
    b. Rational expectations are essential to understanding monetary policy
    c. Monetary policy transmission mechanism
        i. Monetary shocks change expected future path of the money supply
        ii. This changes the expected future path of nGDP through the excess cash balances mechanism

    iii. The change in expected future path of nominal growth (aka "aggregate demand") changes the current level of AD

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- Open letter to Paul Krugman

http://www.themoneyillusion.com/?p=368

- The only difference between pragmatic libertarianism, socialism and neoliberalism is differing views on how economic systems work
- 2 basic worldviews: economistic and commonsense
- Best countries are Denmark, Switzerland and Singapore

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- Krugman defines a liquidity trap as a situation where *conventional* monetary policy loses effectiveness (conventional being open market purchases of short term government debt)
    - Trading zero interest cash for zero interest T bills
- Shouldn't focus on the finance of OMOs, should use the excess cash balance transmission mechanism

http://www.themoneyillusion.com/?p=429

- Use financial markets to infer expectations

http://www.themoneyillusion.com/?p=461

- Short course on monetary theory

http://www.themoneyillusion.com/?p=495

- October 1929, 37, 2008
- 1929: central banks hoarded gold
- 1937: private hoarding of gold
- 2008: banks hoarding reserves

http://www.themoneyillusion.com/?p=604

- Monetary non-neutrality: sensitivity of real activity to any instrument of monetary policy whose theoretical effect is only to change the price level

http://www.themoneyillusion.com/?p=629

- Financial crisis: lots of bankers made lots of bad decisions. The end.
    - Moral hazard played a role
- Critique of "depression economics" and fiscal stimulus

http://www.themoneyillusion.com/?p=640

- "economistic" worldview

    - Worldview = how one interprets cause and effect
    - Values = what is viewed as being morally right/wrong
- Common sense worldview

1. People don't respond very strongly to economic incentives. (I.e., higher prices don't discourage consumption by very much, and higher taxes don't reduce peoples' work effort very much.)
2. Imported goods, immigrant labor, and automation all tend to increase the unemployment rate.
3. Most companies have a lot of control over prices. (I.e. oil companies set prices, not "the market".)
4. Policy disputes over taxes and regulations are best thought of in terms of who gains and who loses.
5. Experts are smarter than the crowd.
6. Speculators make market prices more unstable.
7. Price gouging hurts consumers.

- Ideology = worldview + values

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- Economics isn't about making predictions, it's about *inferring market predictions*
- Most people are methodological pluralists
    - Techniques used to persuade that don't involve prediction
        i. Model elegance
            - People want simplicity and aesthetic elegance
        ii. Logic
            - Appeals to logic
        iii. Theoretical justification
            - Pick models that make sense and can be justified
            - Be careful of data mining
        iv. Coherence
            - Explanations are persuasive if they help us make sense out of a previously bewildering set of observations
        v. Accuracy of assumptions
            - Check your sources
            - Data plus anecdotes (narrative accounts) is a good combination
        vi. Metaphors
            - Play an important role in persuading peers
                - Ex: "invisible hand", "trick down effect"

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- March 18, 2009: QE1 announced
- S&P up 2% even after anticipation, but the *level* suggests we are far from where we should be
- TIPS spreads barely budged

- Market read this as an indication that the Fed won't allow deflation
- Sumner says that IOR will hurt the policy
    - A negative IOR would end excess reserve hoarding, which has been the biggest factor in boosting demand for base money

http://www.themoneyillusion.com/?p=695
- Defense of the EMH
- Biggest anti-EMH argument is bubbles
- Consistently high returns on stocks in the 1900s implies that stock prices were far too low
- 2004-2006 housing bubble was partly driven by rapid immigration from Latin America (there was a bubble in Spain too) and by a perception (which turned out to be false) that coastal zoning constraints were spreading into interior markets
- 2007 had an immigration crackdown and a worsening economy
    - Forward population growth estimates fell sharply

http://www.themoneyillusion.com/?p=665
- 3/22/09
- It is almost impossible for the arts to critique either socialism or capitalism from within liberalism
- Hayek: "If we apply the rules of the micro-cosmos to the macro-cosmos we would destroy it. If we apply the rules of the extended order to more intimate groups we would crush them. So we must learn to live in two worlds at once"
    - Fallacy of Composition?
- Elasticities are much larger than common sense would suggest

http://www.themoneyillusion.com/?p=753
- Markets react to the expect future path of growth

http://www.themoneyillusion.com/?p=790
- Five variables that might provide insight into Fed policy:
    a. Inflation expectations (most important)
        i. TIPS spread
    b. Short term real interest rates
        i. If they're rising then AD might be falling (liquidity effect)
    c. Stock prices
        i. S&P, NIKKEI, Hang Seng, STOXX 50, FTSE 100, DAX
    d. Commodity prices
        i. http://www.bloomberg.com/markets/commodities/futures/
    e. Foreign exchange rates
        i. EUR, JPY

http://www.themoneyillusion.com/?p=940

- Critique of the argument that there is a high risk of future inflation
- Four misconceptions:
    a. It will be difficult for the Fed to pull money out of the economy
        i. Central banks have known how to manage inflation expectations since 1982
        ii. As long as they keep an eye on the TIPS spread and don't let it get above 3% it's fine
    b. Monetary stimulus requires a massive increase in the monetary base
        i. Not if the policy changes affect the money multiplier and velocity
        ii. If the Fed started charging a penalty rate on excess reserves they would go from $800BN to $8BN pretty quickly, then any QE would go directly to cash in circulation and less than $100BN would probably be needed
    c. Cost of maintaining IOR after the recovery
    d. Politics of inflation

http://www.themoneyillusion.com/?p=950
- Not necessarily pro-utilitarianism (or pro-EMH) as is unimpressed with the arguments against them
- Liberals = people who believe cruelty is the worst thing we do
- Do hypothetical thought experiments about moral scenarios unlikely to occur in reality improve our moral reasoning? Most philosophers seem to say yes, Sumner says no

http://www.themoneyillusion.com/?p=998
- Defense of Utilitarianism
- Economics is applied utilitarianism
    - Utilitarianism focuses on aggregate utility, and egalitarianism is an implication of utilitarianism
        - No income inequality is justified under any grounds other than efficiency
        - There are no "just deserts"
        - You can justify income inequality, but only to the extent that "supply-side" effects are important
- What is utility?
    - Peter Singer: "preference utilitarianism"
        - Different than Benthamite (hedonic) utilitarianism

http://www.themoneyillusion.com/?p=1075
- Always keep in mind the EMH and rational expectations
- David Hume: If NGDP drops sharply RGDP will drop sharply

http://www.themoneyillusion.com/?p=1075
- April 26, 2009: "Pu Pu Platter"
- Sumner's ideal reader: someone outside of economics with an open mind; bright enough to understand very subtle, counter-intuitive economic arguments; someone with at least

an amateur's interest in macro who is also a very skilled economist; not overly impressed with "technical mumbo-jumbo that doesn't really mean anything"
    - He's talking about Tyler Cowen
- "To understand all is to forgive all"
- Never dismiss something just because it conflicts with your pre-existing prejudices

http://www.themoneyillusion.com/?p=1110
- Buffett and the EMH
- EMH isn't literally true, it's just a model
- Demand theory: AD is determined by the interaction of money supply and demand; excess cash balances mechanism
    - Monetary economics is about the S/D for the medium of account (the monetary base)
    - Common sense view is that monetary policy is about banks and credit markets
- A big part of my training at Fidelity was focusing on the reasons why I disagreed with the consensus view (aka the market)
    - Talk to Sumner about this

www.themoneyillusion.com/?p=1266
- Monetary shocks

1. Monetary shocks can affect sticky wages and prices with a distributed lag, but the lag is not variable.
2. Monetary shocks can affect output with a distributed lag, but the lag is not variable.
3. Monetary shocks are very difficult to identify using traditional indicators (interest rates, money supply, etc.)
4. The "long and variable lag" hypothesis comes mostly from previous misidentification of monetary shocks.
5. When monetary shocks are correctly identified they have a very powerful and immediate impact on all sorts of asset prices.
6. If one does not observe the predicted asset price reaction from an apparent monetary shock, then the shock never happened.

- Mechanism (argument against "long and variable lags")
    a. Fed does something to increase future expected path of the base or to reduce the future expected demand for the base
    b. This raises future expected path of NGDP growth
    c. This raises all sorts of current asset prices as well as the TIPS and Baa/Aaa spreads
    d. This sets in motion changes in sticky wages and prices that occur over a longer period (though the change starts right away)

http://www.themoneyillusion.com/?p=1307
- How to measure monetary policy
    - Real interest rates

    - Inflation expectations
    - Commodity prices
    - Stock prices
    - Real estate prices
    - Industrial production
    - Dollar value
- Interest rates and the monetary base aren't good indicators of monetary policy, only NGDP is
    - Rates were low and MB was rising in the 1930s

http://www.themoneyillusion.com/?p=1343
- May 20, 2009
- Critique of bubble theory, refuted with rational expectations and EMH
- Fama and French SMB

http://www.themoneyillusion.com/?p=1439
- June 7, 2009
- All American recessions are caused by a slowdown in NGDP growth which is triggered by tight money
    - Recessions occur when AD shifts left
- Economists always think that "this time is different"
    a. Nominal interest rates generally fall sharply in recessions, leading economists to think money is "easy"
    b. Recessions are often associated with real shocks that are easier to visualize such as oil, tech and real estate

http://www.themoneyillusion.com/?p=1467
- June 8, 2009
- Drop in AD is felt more in capital goods sectors (including consumer durables like cars and TVs)
- Felt less in services

http://www.themoneyillusion.com/?p=1472
- June 8, 2009
- What do we know for sure in macro?
    a. NGDP affects RGDP (perhaps due to sticky wages and prices)
    b. Modest recessions are associated with smaller declines in the rate of NGDP growth
    c. Inflation is a monetary phenomenon, and under a fiat regime the central bank has a nearly unlimited ability to influence nominal aggregates
- So many industries were overoptimistic about revenue growth. Perhaps this is because aggregate revenue was lower than expected
- Assume a world of victims but no villains. To understand all is to forgive all

- Need to get away from the idea that the current recession is punishment for past sins

http://www.themoneyillusion.com/?p=1496
- June 10, 2009
- Ways to think about issues:
    a. Use one's intuition
    b. Use empirical evidence
    c. Use economic theory
    d. Use introspection
        i. Most people only use #1

http://www.themoneyillusion.com/?p=1513
- Politics makes people stupid

http://www.themoneyillusion.com/?p=1526
- High MTRs have a powerful effect on efficiency
    - Laffer is underrated
- People view the Reagan/Thatcher tax cuts as a right wing plot to help the rich, but all countries (including Sweden) were doing the same thing

http://www.themoneyillusion.com/?p=1734
- July 3, 2009
- Post right before QE2?

http://www.themoneyillusion.com/?p=1850
- Inequality should be measured by consumption, not income
    - Nominal consumption inequality shows little change from 1970 while income inequality has soared
- Look at living standards
- Wilkinson: happiness has become more evenly distributed
    - Exactly the opposite of what you'd expect if you relied on the left wing
- Comments
    - US is innovative; any changes that would make the US less innovative would be bad

http://www.themoneyillusion.com/?p=1879
- More on EMH and investing
- Comments
    - "red queen competition" = the best of the best compete with each other and stay even, but if a newbie comes in he gets slaughtered because he doesn't know the rules or what to do
        - Ask Sumner about his opinion on this
        - EMH: can't beat the market with publicly-available information

        - At Fidelity the MDR told me: it's not about having more information, it's about using it better
    - Sumner: "if you're going to go against the EMH, go with the Shiller view"
    - Mike Sandifer: "if [the strong version of EMH] is so rational and well-supported, then why do so many reject it, at least implicitly and try in vain to beat the market?
        - It's similar to free will

http://www.themoneyillusion.com/?p=1885
- July 19, 2009
- When Strong died in 1928 the Fed tried to punish the stock market and ended up causing the Great Depression
- In 2008 the Fed tried to punish housing speculators

http://www.themoneyillusion.com/?p=1914
- July 22, 2009
- "rental equivalent" in the CPI
- NGDP is THE indicator
    - If Sumner wrote a macro book he'd leave out inflation and price level except for maybe growth and exchange rates
    - Fisher effect: would use expected NGDP growth instead of expected inflation (this is why China wasn't in a liquidity trap)
- Model of business cycles
    - 2 variables: NGDP and aggregate hours worked
    - Can't have RGDP if you don't have inflation
    - Unemployment is too arbitrary
        - What's the difference between "unemployed" and "discouraged worker" and "involuntary part time"?
        - Employment is better but glosses over the full time/part time distinction
    - Need an AS/AD model
        - AH (aggregate hours) on the horizontal axis
        - Actual minus expected NGDP on the vertical axis
        - No AD curve and the AS curve crosses the horizontal axis at the point where AH equals the natural rate
        - AS curve has a positive slop

http://www.themoneyillusion.com/?p=1927
- July 22, 2009
- On the 21st Bernanke published an op-ed in the WSJ called "The Fed's Exit Strategy"
- He talks about how the Fed has been very "accommodative" by reducing the FFR to nearly zero and expanding the Fed's balance sheet
- He takes credit for "softening the economic impact of the financial crisis"
- But these are the same things that the Fed did under Herbert Hoover. They cut rates to

near zero, massively expanded the Fed's BS, and bailed out the banking system with taxpayer money through the Reconstruction Finance Corporation

http://www.themoneyillusion.com/?p=1945
- Talking about people who were critical of the FED
- Paper by Hetzel on the crisis

http://www.themoneyillusion.com/?p=1972
- Austrian argument: low interest rates inevitably blow up bubbles and cause recessions even if there is no sign of inflation (as in the 1920s)

http://www.themoneyillusion.com/?p=1980
- Argument for an "American Union" modeled after the European Union

http://www.themoneyillusion.com/?p=1993
- Never reason from a price change
- There's an argument that the Fed made a mistake in 2003 cutting interest rates to 1% because it blew up a housing bubble. A counterargument would be that interest rates fell because investment fell

http://www.themoneyillusion.com/?p=2006
- More never reason from a price change

http://www.themoneyillusion.com/?p=2056
- The economy got worse (3Q2008) before the financial crisis worsened

http://www.themoneyillusion.com/?p=2018
- Price inflation isn't useful
- AS/AD model with NGDP on vertical (or unexpected NGDP) and aggregate hours worked on horizontal

http://www.themoneyillusion.com/?p=2093
- Rorty: it doesn't matter if a belief is "true", only whether or not it is useful
- More elegant models tend to be superior
- Mentions Richard Garrett, I took his theories of knowledge class

http://www.themoneyillusion.com/?p=2114
- Play-by-play of 2008

http://www.themoneyillusion.com/?p=2311
- Skeptical of grand, overarching theories that attempt to answer too many questions
    - Marxism, dogmatic libertarianism
- Hume: "reason is a slave of the passions"

    - Poets are the creators of liberal values, but they don't know how the world works because economic principles are too abstract, statistical and counterintuitive to be portrayed artistically
- Groups should stick to what they do best:
    - Artists should create empathy for others through narrative arts
    - Economists should educate people about rade, markets, opportunity costs and incentives
    - Political scientists should advocate true democracy, not specific policies
- Be suspicious of anyone who oversteps his or her role (Lenin, Ayn Rand)

http://www.themoneyillusion.com/?p=2331
- Austrians and real business cycle economists emphasize real shocks
- Argument might be plausible if late 2008 were an endogenous shock, but it wasn't; it was caused by deflationary monetary policy that caused NGDP to fall sharply
    - If individuals and businesses borrow at interest rates that factor in 5% expected nominal income growth then if you get -4% defaults are going to soar

http://www.themoneyillusion.com/?p=2348
- September 20, 2009
- Wisdom of the crowd breaks down if there are systemic biases
- Cognitive bias: elasticity pessimism
    - People think demand curves and the supply of labor are inelastic

http://www.themoneyillusion.com/?p=2627
- The key macro problem is wage stickiness. Periods of falling wages are associated with rising unemployment (and vice versa)
- Some wages are sticky and some readjust each period, so if overall wages are falling then the sticky wages will be above equilibrium, thus causing unemployment
- Stable monetary policy should lead to fairly stable wage negotiations. This requires stable expected NGDP growth as NGDP expectations are a key determinant of wages
- Stable NGDP expectations lead to stable aggregate wages which leads to stable core inflation and stable unemployment
- Collapse of NGDP expectations in 2H2008 triggered all the other problems
- NGDP targeting means stabilizing the dollar's value in terms of NGDP expectations. NGDP expectations are the "gold standard" of macro stability

http://www.themoneyillusion.com/?p=2654
- October 21, 2009
- First big post on climate change

http://www.themoneyillusion.com/?p=2673
- Best thing that happened in 2009 was China decided to stop appreciating its currency
- It is dangerous to think of exchange rate policy as trade policy; it is fundamentally a form

of monetary policy

http://www.themoneyillusion.com/?p=2698

- October 25, 2009
- Mentions a philosopher friend who favors the golden rule (Richard Garrett)

http://www.themoneyillusion.com/?p=2719

- October 27, 2009
- Currency war? World AD is down, so worldwide currency depreciations would be beneficial because they would bring AD back up. Relative exchange rates could stay exactly the same but all currencies could be down on an absolute basis and it would boost AD
- Conservative central bankers don't understand that their policies determine AD and NGDP
- More useful to think of savings/investment patterns driving the current account rather than exchange rates
- Monetary policy has little impact on long run real exchange rates
- There were occasions in the spring where positive stories out of Asia seemed to be the only positive news affecting US markets
- People underestimate the impact of monetary/exchange rate policies because the effects often work in unexpected ways

http://www.themoneyillusion.com/?p=2734

- EMH is consistent with basic economic principles
- Obvious tests:
    a. Asset prices tend to follow a random walk
    b. News gets incorporated almost immediately
    c. Experts (managed funds) underperform the dartboard (indexed funds)
- EMH goes against human intuition
- People tend to be overly impressed by statistical significance since long-shots happen all the time
- Connection with the crisis:
    - Once-in-a-100 year subprime mortgage fiasco dragging down financial system
    - Supercharged growth in Asia tripled oil prices
    - Fed got so frightened of inflation they let NGDP slip more than 8% below target

http://www.themoneyillusion.com/?p=2764

- November 3, 2009
- There isn't an agreed upon definition for easy/tight money
- Aaa/Baa yield spreads measure default risk
- EMH: it's not that the TIPS spreads accurately measure future inflation, it's that they are a measure of inflation expectations and probably the best tool for forecasting inflation.

http://www.themoneyillusion.com/?p=2822

- Want higher NGDP, not necessarily higher inflation
- Higher inflation would probably be a consequence, but real growth would increase as well
- Transmission mechanism:
    a. Expansionary monetary policy boosts expected future NGDP through the excess cash balances mechanism
    b. Higher expected NGDP boosts the current price of assets such as stocks, commodities and real estate
    c. Higher asset prices boost current AD and then NGDP
    d. If the SRAS is currently fairly flat then increased NGDP leads to a lot of RGDP and only a little more inflation

http://www.themoneyillusion.com/?p=2810

- Sumner's views on macro

http://www.themoneyillusion.com/?p=2865

- November 11, 2009
- Too many factors go into the gold market for it to be a reliable forecast of inflation expectations
    - Western CBs don't have much left to sell
    - Mining production has been in decline
    - Asian countries are a big factor in demand
    - Some demand as an inflation hedge
- Stick to CPI futures and TIPS spreads

http://www.themoneyillusion.com/?p=2914

- At the zero bound, higher inflation expectations reduce the real interest rate (Fisher effect)
- Focus on interest rates is just a social construction: it's really the OMOs doing the work

http://www.themoneyillusion.com/?p=2936

- How to interpret news stories
- Look past the narrative
- Think in terms of the numbers and apply abstract economic principles
- Example: studies that the world is much less violent than any other period in history versus what is portrayed on the news
    - Fits with economic theory: you'd expect violence to go down as the world gets richer
- Try to think of alternative interpretations
- Think in terms of hard theory and hard numbers
    - Say's law (law of market): products are paid for with products and a glut can take place only when there are too many means of production applied to one kind of

product and not enough to another
- Mid-2006 to mid-2008 shows that resource reallocation doesn't have a big impact on unemployment. Cyclical problems come about from NGDP missing the target

http://www.themoneyillusion.com/?p=2950
- India will be #1 in 100 years
- Don't think about problems in terms of mental images
- Example: Germany versus Greece
    - Germany has a much larger GDP: why?
    - Mental images would put you off track
    - GDP per capita: $35,000 for Germany, $30,000 for Greece
    - So the reason Germany's GDP is 10x more than Greece's is almost entirely due to its much bigger population (80m versus 10m)
    - Takeaway: among developed countries, variation in total GDP is *almost entirely determined by variation in population*

http://www.themoneyillusion.com/?p=2970
- November 27, 2010
- "self-fulfilling prophesy" in macro
- Problem is that it treats expectations as if it is a free-floating concept that isn't anchored to fundamental determinants of long-run AD growth
- Deflation always leads to a sort of dark ages of macro
- QTM is the foundation that macro is built on
- Expectations is THE DRIVER of AD

http://www.themoneyillusion.com/?p=2974
- Healthcare problems:

1. Equity; an affluent society hates to see people suffer and die because they can't afford health care.
2. The free-rider problem, uninsured individuals understand their society's values, and can free ride by not buying health insurance and relying on the mercy of ERs.
3. Moral hazard; insured individuals over-consume "Cadillac" health care, driving up costs for everyone, even the uninsured.
4. Government subsidies to help insure the poor require distortionary taxes.

http://www.themoneyillusion.com/?p=2992
- Economists overestimate the problem of "long and variable lags"

http://www.themoneyillusion.com/?p=3055
- Good monetarism uses the excess cash balance mechanism
- Bad monetarism focuses on the banking system and monetary aggregates and multipliers
    - In fact, the aggregates respond endogenously to the overall macro environment

    which is determined by expectations of future changes in the supply and demand for base money and hence NGDP
- Mechanism review:
    - Monetary base is usually 90% currency (would be 99% if it weren't for reserve requirements)
    - When the Fed changes monetary policy it adjusts the expected future path of the monetary base
        - It may signal its intentions by adjusting its target interest rate, but that target rate plays no important role in the transmission mechanism. Indeed market rates often move in the opposite direction from unanticipated changes in the target rate
        - Monetary policy is primarily about changing the number of dollars in people's wallets
- Bad monetarism implicitly treats the money multiplier as something reliable, while velocity is a bit unreliable
- No other multipliers add any information to the NGDP/MB multiplier. It is unstable, but so are all the others
- When people start talking about the banking system, reserve, loans etc. stop and think about this:
    - Most of the base is normally cash
    - Monetary policy consists of changing the supply of cash relative to demand
    - The nominal size of the entire banking system and its components is determined endogenously just like any other industry in the economy

http://www.themoneyillusion.com/?p=3059
- How Sumner makes arguments:
    - Intuitive thought experiments
    - Economic history
    - History of thought
    - Pragmatic arguments
    - Fairness arguments
    - Illuminating analogies/metaphors

http://www.themoneyillusion.com/?p=3102
- Fed is bending to pressure from foreign CBs and Wall Street about inflation fears
- Friedman's account of the Depression was essentially a defense of free markets. He argued that the Fed was too tight in the 1930s. He said that the Fed should stabilize MV and let the markets do the rest

http://www.themoneyillusion.com/?p=3123
- Argument that Chinese devaluation would be a good thing for the global economy
- Doesn't matter if something is "true" or not, only if it's useful
    - Talking about models such as S/D or comparative advantage

- It is easy to visualize how a weak yuan can hurt the US and hard to visualize how it can help. Therefore, people overestimate the "terms of trade" impact and underestimate the income effect
- There are various issues that look distributional at first glance that are actually purely efficiency issues
- Truth is whatever is regarded as true or whatever is useful to believe
    - "Society believes X, but I predict that in the future society will come to believe Y"
    - Equate truth with practical utility: a true statement is a useful statement
- Both supply and demand for oil are very inelastic in the short run so extreme price volatility is to be expected

http://www.themoneyillusion.com/?p=3153
- Why banks shouldn't matter for NGDP
- Excess cash balances mechanism
    - Every individual has a certain amount of real money they want hold (Md/P)
    - When the Fed increases the money supply individuals spend the money they don't want to hold. But in aggregate the population can't get rid of the money they don't want to hold since one person's spending is another's receipt.
    - The attempt to get rid of that money is what leads the economy out of a recession because it eliminates the general glut of other goods
    - In the long run prices rise so that Md/P is back to where people want it
- Why money is special (compared to other commodities like copper):
    - If copper mines "forced" people to accept more copper both the nominal and real price would fall
    - If central banks force people to accept more currency then the real price of currency falls, but the nominal price is fixed by convention (people price all other goods in terms of currency)
    - The only way that creating more money can reduce the real value of money is through inflation
- Where do banks fit in?
    - Produce an asset (demand deposits) that have a fixed nominal price, but banks can't increase the amount of this asset the same way central banks can increase the money supply
    - The market will determine the equilibrium quantity of demand deposits once the central bank determines the price level
    - Demand deposits and base money (currency) aren't perfect substitutes
    - No matter what is happening in the banking system and no matter what impact those events have on the price level, the central bank has an almost infinite ability to offset those changes with adjustments in the supply of currency, and they do it *all the time*
    - The CB can adjust to anything the banks could do to affect the price level

http://www.themoneyillusion.com/?p=3221

- In a properly-managed fiat money regime, real shocks should not lead to a decline in NGDP
- Free trade is a supply-side phenomenon but it also increases business confidence: stocks rose after NAFTA passed
    - Higher stock prices and business confidence raise the Wicksellian equilibrium real interest rate
        - This is the interest rate that was neutral to prices in the real market. If the market rate is below you get a boom or above you get a bust

http://www.themoneyillusion.com/?p=3248
- Monetary policy can influence commodity prices without influencing unemployment
    - But they are only important to the extent that they provide information about the future expected NGDP that is not available elsewhere
- Natural rate is a useful concept for unemployment and RGDP
- Definitions:
    - The natural rate of interest is the market rate when 12-month forward NGDP expectations are on target
    - The natural rate of the dollar in Forex is the market exchange rate when forward NGDP is on target
    - Natural rate of unemployment is the expected unemployment when expected NGDP is on target

http://www.themoneyillusion.com/?p=3255
- "the real problem was refinancing"
- Don't make moral judgments about millions of people you've never met

http://www.themoneyillusion.com/?p=3265
- The "paradox of thrift" is really about an increase in the demand for money, not saving
- AD curves are still downward sloping even when rates are zero
- The idea that high wage policies can help during a recession/depression is seriously refuted by the data

http://www.themoneyillusion.com/?p=3278
- Big on pragmatism: ideas must be useful

http://www.themoneyillusion.com/?p=3300
- Moral hazard is the central issue in the financial system

http://www.themoneyillusion.com/?p=3316
- Parallels to the Great Depression
    - Krugman = Keynes
    - Bernanke = George Harrison

http://www.themoneyillusion.com/?p=3332

- The focus on "long and variable lags" means that economists focus too much on long term inflation expectations and not enough on short/medium term expectations (2 years)
- Most economists also think in terms of rates, not levels
- Adverse demand shocks trigger supply-side problems such as unemployment benefits being extended

http://www.themoneyillusion.com/?p=3345

- There's a Chicago saying to ignore what people are thinking and look at how they act. It's probably overdone but it's still a reasonable starting point

www.themoneyillusion.com/?p=3420

- Don't put too much faith in authorities and experts

http://www.themoneyillusion.com/?p=3414

- Best movies of the last decade

http://www.themoneyillusion.com/?p=3473

- Nominal shock (recession) leads to massive sectoral shift even if the economy didn't need any sectoral adjustments
- Permanent income hypothesis: during a recession there will be a sharp decline in capital investment and consumer durables while output of food, clothing and many services will decline by a relatively small amount
- Monetary policy shocks are caused by flawed monetary policy process that puts too much emphasis on interest rates
- Severe recession in mid-2008: equilibrium rate decreased autonomously while the Fed kept rates constant and there was an oil shock
    a. Sectoral shift out of housing and related industries had been occurring since mid-2006 and didn't cause a recession
    b. Severe energy shock began in 2007 and worsened in early 2008 and didn't cause a recession and wasn't expected to
    c. First half of mid-2008 was a mild AD shock as NGDP growth slowed from 5% to 3%, but there wasn't a major jump in unemployment
- If NGDP growth falls 8% below trend, relatively few workers will get 8% pay cuts because wages are sticky. Instead, profits will fall sharply, bonuses will fall sharply and hours worked will fall sharply
- Hates the term "aggregate demand" since people don't seem to be clear on what it means; prefers to define AD as NGDP
- An increase in forward NGDP expectations would sharply raise asset prices but would hardly budge current nominal wages. This would boost employment and output

http://www.themoneyillusion.com/?p=3563

- When people refer monetary policy as a "blunt tool" they mean it can't be used to control specific sectors, only the overall economy

http://www.themoneyillusion.com/?p=3619

- Don't want to have too simplistic of a model for the macroeconomy
- Monopolistic competition with sticky prices explains a portion of market economies
- Perfect competition with sticky wages is a good model for commodities
- Monopolistic competition with flexible prices and sticky wages is a good model for big capital goods
- The Keynesian model can't explain the interrelationship between wages, prices and output in 1933 or the GD as a whole
    - An explanation of the GD is the sine qua non of demand-side macro

http://www.themoneyillusion.com/?p=3645

- Doesn't believe in bubbles (no useful definition)
- Commercial real estate is volatile; lump in with commodities and equities as very pro-cyclical assets

http://www.themoneyillusion.com/?p=3665

- There wouldn't have been a GD if prices hadn't fallen. The interwar economy was very commodity-driven
- Without deflation the banking crises of the 1930s wouldn't have occurred

http://www.themoneyillusion.com/?p=3682

- Low interest rates are a sign that money has been tight
- Tight money depresses rates in 2 ways: the Fisher effect and the income effect
    - Thus tight money can lower inflation and real growth and both these tend to reduce nominal interest rates
- People confuse easy money and easy credit. Tight money and easy credit can coexist

http://www.themoneyillusion.com/?p=3735

- Wage stickiness is more important than price stickiness

http://www.themoneyillusion.com/?p=3743

- "One of the many things that made me become disenchanted with economics was the way that economists relied more and more on purely technical approaches to complex real world problems."
    - It’s like studying biology with a physicist's tool kit. Yes, physics underlies biological processes, but there's so much more
- It isn't "all in the data"
    - You have to know which data are appropriate, which are accurate and which variables are exogenous (cause other things?)

http://www.themoneyillusion.com/?p=3773

- Defense of the EMH

http://www.themoneyillusion.com/?p=3809
- Different people think about things in different ways
- A drop in NGDP will cause a drop in RGDP because of sticky wages, which were set relative to expected NGDP
- AD/AS model: AD is MV=PY

http://www.themoneyillusion.com/?p=3825
- James Tobin supported NGDP targeting
- Central bankers don't like NGDP targeting because they don't want to be blamed when they fail

http://www.themoneyillusion.com/?p=3906
- More on the housing (non) bubble

http://www.themoneyillusion.com/?p=3926
- From the perspective of someone looking at NDGP expectations, a financial crisis is just one of many factors that can lead to velocity shocks that should be offset with a change in the monetary base

http://www.themoneyillusion.com/?p=4121
- PPS link to book review talking about EMH and the small firm and value factors (he says their effect has dissipated)
- "efficient" doesn't mean "right"

http://www.themoneyillusion.com/?p=4140
- EMH allows for random time-varying risk aversion
- It is almost impossible to distinguish between the lucky and the smart
- Mutual fund excess returns aren't serially correlated
  - If the EMH is false, then above average managers should do better on average

http://www.themoneyillusion.com/?p=4900
- After the real estate crash, the public and banks demanded large quantities of fresh liquidity. In summer 2007 the world's central banks were supplying it and no liquidity crunch developed. But by summer 2008 the Fed failed to provide adequate cash since it was spooked by rising inflation.
- 4 key symptoms of tight money appeared within months: the dollar rose 30% against the euro, gold fell 30%, oil fell 80%, and the inflation rate fell from 5.5% to negative levels
- As a result Lehman collapsed and the stock market crashed

http://www.themoneyillusion.com/?p=4915
- Some discussion about using markets to understand monetary shocks

http://www.themoneyillusion.com/?p=4979

- Fed was too passive in October 2008 in the face of increasing demand for liquidity
- Indicators used if money is tight:
    - Falling commodity prices
    - Falling TIPS spreads
    - Falling equity prices
    - Rising dollar
- Tight money always looks like something else

http://www.themoneyillusion.com/?p=5009

- Increase in demand for liquidity = increase in demand for dollars

http://www.themoneyillusion.com/?p=5062

- Never reason from a price change: go one step back and figure out why the price changed
- Falling oil prices can be bullish or bearish: bullish if production is being increased, bearish if demand for dollars is increasing and AD is falling
- Problem with the Keynesian approach to AD:
    - Lower long term rates look like an exogenous shock that is expansionary, whereas Sumner believes they mostly reflect lower growth expectations worldwide (confirmed by falling equity prices)
    - Increased demand for dollars looks almost invisible from the perspective of CIGNX
    - A scramble for liquidity can be highly deflationary even if the financial system is in good shape

http://www.themoneyillusion.com/?p=5083

- Exchange rates tell nothing about absolute values

http://www.themoneyillusion.com/?p=5115

- May 20, 2010
- Sumner is sounding the alarm about falling AD worldwide. The S&P was dropping like a rock and oil was too

http://www.themoneyillusion.com/?p=5129

- May 21, 2010
- Table of S&P500, WTI oil and 5Y TIPS spreads
- S&P and oil are real growth expectations
    - Comment: S&P and ISM should be correlated
- TIPS spreads are inflation expectations

www.themoneyillusion.com/?p=5141

- If you're a pragmatist, be consistent
- Sumner: property laws aren't a natural right, they just make the economy work better
- Take positions you feel comfortable defending

http://www.themoneyillusion.com/?p=5164
- Since 1980 the neoliberal revolution has helped worldwide growth
- Should read the economist and FT every week to get a sense of what's going on in the world

http://www.themoneyillusion.com/?p=5287
- Three types of models
    a. Models that explain how key macro variables get determined
        i. ISLM, ASAD, Money S/D, LF and interest rates
    b. Models that try to show the relationship between changes in macro variables and unobservable changes in the social welfare function
    c. Models that attempt to predict movements in key macro variables
- Unstable future NGDP expectations cause unstable current NGDP

http://www.themoneyillusion.com/?p=5305
- Defense of neo-liberalism
- Fallacies of the left and the right

http://www.themoneyillusion.com/?p=5342
- People tend to underestimate the role of money in NGDP (AD) shocks

http://www.themoneyillusion.com/?p=5355
- 3 basic problems during 1929-1933:
    a. People hoarded currency (backed by gold)
    b. People hoarded gold
    c. Central banks hoarded gold
- These raised the value of gold and lowered price levels all over the world

http://www.themoneyillusion.com/?p=5869
- Why NGDP matters
- Correlation between NGDP forecasts and IMF estimated financial losses
- Comment: why matters for monetary policy is the actual level of productive transactions (NGDP) not the "stable value" of those transactions (RGDP)

http://www.themoneyillusion.com/?p=6033
- Monetary theory is the theory of the value, or purchasing power, of the medium of account
- OMOs don't result in surpluses or shortages of base money. Instead, the prices of all other non-monetary goods, services, and assets adjust to equate the supply and

demand for base money

http://www.themoneyillusion.com/?p=6051

- Default model: once countries are fully developed they should all grow at about the same rate. Those with less efficient (less neoliberal) models should plateau at a level slightly believe the most efficient countries (US, Switzerland, Singapore, etc.)

http://www.themoneyillusion.com/?p=6119

- Hilarious analogy to the expectations trap

http://www.themoneyillusion.com/?p=6119

- Money market is always in equilibrium as Ms=Md at the current interest rate
- The problem is sticky prices: by moving Ms faster than the overall price level, prices get out of equilibrium
- Nominal price of dollars is always fixed at exactly 1, and all other goods are priced in dollars. Money is special because other goods are priced in terms of money
- "the price of a dollar is a dollar"
- Expected inflation rates express expectations about money's future value as a medium of exchange and pertain to money's role as a store of value, not as a *current* medium of exchange

http://www.themoneyillusion.com/?p=6148

- CB independence hasn't been a good thing
- Inflation rates have gone down everywhere regardless of whether or not the CB was independent

http://www.themoneyillusion.com/?p=6161

- The general "overproduction story"
    - Funny how "overproduction" problems affecting all sectors just happen to show up at precisely the moment when NGDP begins falling
    - The houses and cars produced in the 1920s found buyers, but all of a sudden in the early 1930s when NGDP fell in half all the buyers were gone
- Comment: the problem with the "sticky prices" model is that the term is misleading
    - It is better viewed as a mismatch between the "long runs" of different markets.
    - The long run for inflation expectations is overnight since the Fed can change them immediately. The long run for the job market is months or years
    - The long run for some debt is overnight, 30 years for other debt
    - All of this is true with all economic players being rational and forward looking
    - Therefore, when NGDP drops, some markets adjust instantly and some do not
- Last comment by Sumner: "there is nothing in all of economics that I reject more than the Cantillon effect"
    - Monetary policy shocks usually involve only tiny injections of money
    - It makes no difference whether money enters one bond market or another

    - Some people talk about money "going into" the stock market or the housing market, but this confuses money and credit, which are two completely different concepts

http://www.themoneyillusion.com/?p=6188
- The Fed controls the MB and all other nominal variables are endogenous
    - This includes NGDP, the price level, broader monetary aggregates, the various denominations of currency and coins, and bank reserves
    - Fed also influences demand for bank reserves by changing reserve requirements or IOR
- Coins are kind of like M2; the nominal demand for coins is strongly correlated with nominal purchases of goods and services (but not assets), which is NGDP

http://www.themoneyillusion.com/?p=6197
- Long and variable lags isn't an issue in monetary policy since Fed actions affect expectations with zero lag, and future expected AD is the biggest driver of current AD
- Long and variable lags are a problem with the supply-side effects of fiscal policy

http://www.themoneyillusion.com/?p=6244
- Fed might be trying to get 0% inflation

http://www.themoneyillusion.com/?p=6322
- Fed didn't cause the housing bubble
- Housing isn't a free market
    - Money being loaned out is essentially government funds (due to FDIC insurance) and government regulates

http://www.themoneyillusion.com/?p=6395
- Expectations of future Fed policy are what drive AD

http://www.themoneyillusion.com/?p=6395
- Currency devaluations
- Interest Parity Theorem: if you do a major devaluation, the exchange rate cannot be expected to appreciate back to the old level unless nominal interest rates fall significantly
    - This can't happen at zero nominal rates, so depreciation of the Japanese yen would be a "foolproof" way out of a liquidity trap
- There are 2 languages for discussing monetary policy:
    - Fed funds rate/money supply language is full of mysterious long and variable lags and makes intelligent conversations almost impossible
        - Literally any outcome can be assumed depending on your assumptions about the future stance of policy (though substitutability of cash and t-bills is nearly irrelevant)
    - If we shift to talking about prices things can be immediately pinned down

            - Price of gold, basket of commodities, forex, overall price level, or NGDP
            - What's important is that it always has implications for future policy

http://www.themoneyillusion.com/?p=6413

- Causality hasn't been clearly defined
- A financial crisis raises the demand for money while at the same time lowering the Wicksellian equilibrium interest rate, so if you're looking just at interest rates you'll see them stay unchanged and conclude that the Fed is doing its job
    - April to October 2008

http://www.themoneyillusion.com/?p=6464

- Monetary policy should focus on money not credit, and confusing the two is very bad
    - All about the supply and demand for money
- Excess cash balances effect is central to monetary economics

http://www.themoneyillusion.com/?p=6514

- August 6, 2010
- 3 Fed nominees just sent to Senate, one sent back to WH

http://www.themoneyillusion.com/?p=6564

- During the GD, people thought monetary policy was easy b/c of low interest rates and high levels of liquidity. Pundits during that era pointed to all sorts of structural problems which were actually symptoms of the GD, not causes
- A lot of pundits today are doing the same thing

http://www.themoneyillusion.com/?p=6578

- "stocks like easy money, stocks are a hedge against inflation"
    - Stocks did horribly between 1966 and 1981

http://www.themoneyillusion.com/?p=6624

- Liquidity effect happened even when the Fed was buying/selling gold
    - The effect occurs because there is more non-interest bearing money in the public's hands
    - Until consumer prices have had a chance to rise the only way to get people to hold this extra money is for free market rates on alternative assets to fall
    - These rates are the opportunity cost of holding cash
- Monetary policy is fundamentally about the S/D for money
    - Interest rates are just one of many variables that change as a result of changes in the money supply; exchange rates and consumer prices also change
- Rates can rise 2 ways:
    - Tighter policy = liquidity effect
    - Print money and promise to do more = fisher effect

http://www.themoneyillusion.com/?p=6639

- People view inflation falling in recessions as "natural"
- The real reason is because the cause of a weak economy is almost always (at least partially) a reduction in M*V
    - When M*V growth fall sharply so does both inflation and real growth

http://www.themoneyillusion.com/?p=6646

- Common responses:
    - It's not a monetary problem it's a banking problem
    - You can't push on a string
    - Rates are already at zero
    - We need fiscal stimulus

http://www.themoneyillusion.com/?p=6649

- The problem isn't structural, and even if it was it wouldn't matter
- The problem with the economy is a lack of AD
- Structural unemployment is like an oil shock: it's a reduction in aggregate supply
    - In both cases employment eventually adjusts
    - In both cases the adjustment happens faster if monetary policy accommodates
- Job losses in August 2008 were mainly from manufacturing, commercial construction and services. None of these are related to sub-prime housing, but are VERY related to overall aggregate demand

http://www.themoneyillusion.com/?p=6671

- NGDP is about monetary policy (AD). RGDP depends on AD and any concurrent supply-side factors

http://www.themoneyillusion.com/?p=6693

- Monetary policy is about EXPECTED FUTURE CHANGES in the money supply
- Changes in expected future M*V

http://www.themoneyillusion.com/?p=6756

- Most bank failures in 2009 were in Georgia
- Biggest problem were construction loans for commercial real estate
- Commercial real estate is super cyclical
- Crisis was all about small banks

http://www.themoneyillusion.com/?p=6892

- In the "pursuit of happiness" the key word is "pursuit"
    - Life should be a sort of adventure, and the utilitarian would say "let 6.7 billion adventures bloom"

http://www.themoneyillusion.com/?p=6923

- WSJ is biased: call for easy money with R's and tight money with D's as president

http://www.themoneyillusion.com/?p=6937
- What would really tight money look like?
  - Near zero interest rates
  - A large increase in the monetary base

http://www.themoneyillusion.com/?p=6960
- Fed botched the Spring 2010 Eurozone crisis the same way they botched the 2008 financial crisis: by passively allowing increased demand for dollars to depress asset prices and economic growth
  - Greece fears led to an increased demand for dollars
- Income effect >>> substitution effect
- Worldwide AD and growth are not zero sum

http://www.themoneyillusion.com/?p=6971
- The left/right debate in the US is so vicious because everyone is debating second-best policies in a policy-making regime that is profoundly dysfunctional

http://www.themoneyillusion.com/?p=7091
- Optimum tax regime
- Introductory concepts:
  - The idea that all forms of income should be taxed equally is like saying that all fruit should sell at the same price
  - Gini coefficients of inequality based on income data are meaningless
  - The economic incidence of a tax is totally different from its legal incidence
- Analogy: 2 brothers make $100k/year, one spends on watermelon, the other on blueberries
- People think consumption is much more equal than income, and hence that consumption taxes are regressive. Actually, consumption taxes are proportional to consumption, which is the only meaningful benchmark
- People also think that wealth is much less equal than income, but that can't be true because wealth is just the present value of all future consumption, so inequality of wealth and consumption are exactly equal in present value terms
- Ideal tax system:
  - Externality taxes such as a carbon tax
  - Land tax
  - Progressive consumption tax, preferably on wages and salaries
  - Maybe a VAT

http://www.themoneyillusion.com/?p=6872
- The only way to test the EMH is serial correlation of alpha (outperformance)
  - Are those who win once more likely to win next time?

    - Fama and French: slight serial correlation among the very best funds (top 3%), but not enough to give the average investor any advantage
- The EMH is approximately true, but not precisely true. If it were then no one would have any incentive to estimate fundamental values
- It's a simple logical idea, similar to:
    - David Hume's quantity theory of money
    - Fisher's theory of inflation and nominal interest rates
    - Cassel's purchasing power parity
    - Friedman and Phelps' natural rate hypothesis
    - Muth's rational expectations

http://www.themoneyillusion.com/?p=7333
- October 5, 2010
- World stock prices jump on yen devaluation
- Most important concept in economics: it's not a zero-sum game
- Kills Krugman's "beggar-thy-neighbor" model

http://www.themoneyillusion.com/?p=7350
- The blabber between parties is very similar to the 1930s

http://www.themoneyillusion.com/?p=7433
- Market movements are a random walk, so any changes are expected to be permanent (roughly true)

http://www.themoneyillusion.com/?p=7438
- EMH and Ratex discussion
- Both assume everyone is hyper-rational, which isn't necessarily true

http://www.themoneyillusion.com/?p=7456
- October 13, 2010
- People understand liquidity effect; income, price level and fisher effects not so much

http://www.themoneyillusion.com/?p=7473
- EMH, markets and asset prices
- It's wrong to say that wealth gained from a price increase on new information is gone later if the price is down on even more recent information since the latest price is still higher than it would have been
- "pushing on a string" theory is dead since market reactions contradict it

http://www.themoneyillusion.com/?p=7497
- The parallels between the GD and the past recession are ridiculous

Sumner versus Austrian Theory:

- http://www.themoneyillusion.com/?p=1094
- http://www.themoneyillusion.com/?p=3316
- http://www.themoneyillusion.com/?p=203
- http://www.themoneyillusion.com/?p=7514 (Japan vs. Hayek)

http://www.themoneyillusion.com/?p=7507
- Sumner: "[Mish], a Rothbardian? Remind me to skip that blog"
- Talking about inflation without talking about AD is a big mistake
- "I have zero interest in people who get lucky in economic forecasts-but I guess others are more superstitious"
- Theory of comparative advantage says weak environmental regulations don't give countries an advantage in trade

http://www.themoneyillusion.com/?p=7514
- Post about the effects of the depression in Japan

http://www.themoneyillusion.com/?p=7573
- Sumner's macro textbook:
    - Avoid any mention of interest rates or inflation
    - Fisher equation would use expected NGDP growth
    - AS/AD model would use hours worked as the real variable and NGDP as the nominal variable
    - Transmission mechanism would not involve changes in interest rates but rather the excess cash balance mechanism
        - More cash would raise expected future NGDP
        - This would raise the current price of stocks, commodities and real estate
        - Higher asset prices would tend to raise current AD
        - More nominal spending, when combined with sticky wages and prices, would boost output
- Flaws:
    - Fisher equation uses interest rates
    - Interest rates are important for inter-temporal decisions
    - Fix:
        - Macro without the concept of inflation and a business cycle theory that didn't use either inflation or interest rates

http://www.themoneyillusion.com/?p=7706
- Tobin's Q = market value of firm's assets / replacement cost of assets
- Expansionary monetary policy increases market value immediately (stock prices)
- Higher stock prices = lower cost of equity = more investment

http://www.themoneyillusion.com/?p=7749
- November 9, 2010

- Results of using market indicators to predict

http://www.themoneyillusion.com/?p=7766
- Stagflation = fast NGDP growth + slow RGDP growth

http://www.themoneyillusion.com/?p=7837
- Post on human development (HDI) and GDP

http://www.themoneyillusion.com/?p=7960
- Full views on liquidity traps

http://www.themoneyillusion.com/?p=7985
- Fed is trying to raise income, not inflation
- Good analogy: suppose someone is trying to get bigger so they can make the football team. They would say they're trying to gain weight. What they wouldn't say is that they're trying to get fat. For any amount of weight they gain, they'd prefer most if not all of it to be muscle. It's the same with QE, inflation and real growth. The Fed is raising NGDP and would prefer most if not all of the gain to be in the form of RGDP. The problem is they're going around telling everyone they're trying to get fat

http://www.themoneyillusion.com/?p=8050
- Bad conservative arguments against QE2 defeated

http://www.themoneyillusion.com/?p=8063
- Another anti-bubble post

http://www.themoneyillusion.com/?p=8109
- 2 basic types of monetary policy
    - Policies that affect the supply (quantity) of the medium of account
    - Policies that affect the demand for the medium of account
        - Reserve requirement changes
        - IOR
        - Changes in the nominal policy target
            - Higher target leads to higher inflation expectations

http://www.themoneyillusion.com/?p=8116
- Monetarist AD view: AD = NGDP

http://www.themoneyillusion.com/?p=8143
- Be a pragmatist about language: definitions should be useful
- What is money? The medium of account
- Analogy: buying a $100,000 yacht
    - You could buy it with a briefcase of $100,000 in currency, but you could also

probably buy it with $100,000 in Microsoft stock. The dealer might prefer cash, but he'd be willing to take the stock because he knows he could quickly sell it for roughly $100,000. So the stock could serve as a medium of exchange
    - However, consider 2 possibilities:
        - The Fed doubles the non-interest bearing monetary base
        - Microsoft doubles the amount of stock outstanding
    - Both actions would reduce the value of the respective paper asset through the dilution effect. The difference is that if the value of the stock fell in half, its nominal price would fall in half, while the nominal price of cash is fixed at $1, so all prices must double
    - The supply and demand for the medium of account determine the price level and NGDP
- "Unit of Account" is different from "Medium of Account"
    - Unit: "dollar" which is an abstraction, an accounting term
    - MoA: 1/20.67oz of gold (in the US 1879-1933) or the dollar bill, the current MoA

http://www.themoneyillusion.com/?p=8158
- Commodity prices are the best way to tell if money is loose/tight
- Others include (NGDP indicators)
    - Stock and bond prices
    - TIPS spreads
    - Forex rates
    - Real estate prices

http://www.themoneyillusion.com/?p=8168
- EMH isn't "true" it's just a model, and a useful one. Anti-EMH models aren't useful
- Investors have cognitive illusions, but academics and policymakers are equally susceptible
- NEED TO AVOID ASYMETRICAL THINKING
    - "speculators are driving up the price of oil" versus "driving down"
        - No one would ever think of the second
    - It is a sign of sloppy thinking and cognitive illusions
- Good comments about trading strategies and market efficiency

http://www.themoneyillusion.com/?p=8258
- Defense of finance

http://www.themoneyillusion.com/?p=8261
- The Fed agrees with macro consensus at the time, so of course no one blames the Fed

http://www.themoneyillusion.com/?p=8311
- Utility is not happiness
    - Utility is living standards

http://www.themoneyillusion.com/?p=8342

- Asset price timeline of the crash

http://www.themoneyillusion.com/?p=8483

- Low housing construction and vacant homes aren't being bought
  - This indicates anemic housing demand

http://www.themoneyillusion.com/?p=8534

- The thing Sumner does that others don't is allow himself to consider multiple catalysts and multiple coinciding problems

http://www.themoneyillusion.com/?p=8750

- Again uses stocks, commodities, TIPS spreads to forecast NGDP growth

http://www.themoneyillusion.com/?p=8834

- Quasi-monetarism differences from monetarism
- Monetary aggregates aren't good indicators or policy targets
- Current changes in the expected future path of M affect current AD with almost no lag at all
- Modern monetary policy is about changes in the expected future path of prices and NGDP
- Current changes is short term rates or the MB are not causal factors, they are signaling devices

http://www.themoneyillusion.com/?p=8925

- Social science models:
  - Are useful precisely because they are ad hoc, not universal
  - Are useful only if inaccurate, i.e. simplifications of reality

http://www.themoneyillusion.com/?p=9056

- Monopolistic competition model is much better than the oligopolistic model

http://www.themoneyillusion.com/?p=9062

- High inflation in the 1970s was caused by monetary policy?
- Flaw in the AS/AD model: oil spike is a leftward shift in AS?

http://www.themoneyillusion.com/?p=9099

- Obama should've listened to Christy Romer in 2009. Instead he listened to Larry Summers

http://www.themoneyillusion.com/?p=9113

- Left and right are increasingly meaningless concepts

- The success of governance is highly dependent on how much contempt leaders have for sticking with principles and "doing the right thing"
- Commenter argument: politics is about doing deals
    - Sumner: if it is so easy to do Pareto-improving deals then why are the economies of corrupt countries so messed up?

http://www.themoneyillusion.com/?p=9247
- Recessions are most probably monetary
- Example: Botswana has an AIDS epidemic, but RGDP didn't turn negative until Lehman
- Adam Smith: "There is a great deal of ruin in a nation"

http://www.themoneyillusion.com/?p=9303
- The debate over whether economics is a science is really a debate over the meaning of the term "science"
    - If science is when people build models to better understand the world around us then economics is a science
- The distinction between hard and soft sciences doesn’t make much sense
- In the end it doesn't matter. All that matters is whether economics is useful

http://www.themoneyillusion.com/?p=9359
- Marshmallow test
- Morgan: determined in the first year of brain development
    - Need a "delay of gratification"
    - Need to process information in a positive/hopeful light instead of a negative/fearful light

http://www.themoneyillusion.com/?p=9404
- Breakdown of the BOJ's policy the last 20 years

http://www.themoneyillusion.com/?p=9738
- Lots of stuff on stocks
- Interest rates are the price of CREDIT, not MONEY
    - Low real interest rates support a higher P/E ratio

http://www.themoneyillusion.com/?p=9829
- Richard Rorty:
    - When people say "most people think X is true but I think Y is true" they actually mean "most people think X is true but I predict that in the future people will come to believe Y is true"
    - No distinction between what is true and what we believe to be true
    - "that which has no practical implications has no philosophical implications"

http://www.themoneyillusion.com/?p=9557

- Hedge funds haven't done well
- Commenters:
    - Need to look at beta and correlation (and kurtosis)
    - Information ratio is the key measure
- Should talk to Sumner about Alpha and Beta

http://www.themoneyillusion.com/?p=10061
- "pent up demand" arguments are weak
- Housing starts driven by household formation
- Household formation driven by:
    - Immigration
    - Unemployment for 20-30 demographic (youths living with parents)
    - Biggest cause is low NGDP

http://www.themoneyillusion.com/?p=10232
- You get labor income. You have 3 choices: consumption, savings/investment, charity
- If you tax income that would've gone toward investment then you're not redistributing in a way that makes everyone better off.
- Consumption inequality is really what matters, and it isn't as bad as income inequality
- Sumner's four favored typed of income distribution:
    - Education vouchers, catastrophic health insurance, government subsidy of HSAs for low income workers, wage subsidies for low income workers
    - 4th one would be in combination with abolition of minimum wages and occupational licensing

http://www.themoneyillusion.com/?p=10524
- Wages are pro-cyclical for productivity shocks and countercyclical for demand shocks
- Don't worry so much about inflation numbers
    - Core inflation is 39% housing and showed rising housing prices during the crash (even in relative terms)
    - Better to look at ratio of nominal hourly wage rate to per capita NGDP as an indicator of the effect of nominal shocks on the labor market

http://www.themoneyillusion.com/?p=10503
- NGDP targeting would lead to the end of the Fed

http://www.themoneyillusion.com/?p=10581
- Frustrating NYT quotes from the 1930s

http://www.themoneyillusion.com/?p=10612
- August 20, 2011
- Brad DeLong: Sumner's call for more stimulus would balloon the Fed's balance sheet until the private sector was so awash with liquidity and had so much risk taken off its

balance sheets that they're willing to spend

http://www.themoneyillusion.com/?p=10636
- 1920s was a "golden age of macroeconomics"

http://www.themoneyillusion.com/?p=10663
- Swiss franc devaluation
- September 6, 2011

http://www.themoneyillusion.com/?p=10721
- IS-LM: a model that is infinitely flexible and can explain anything explains nothing

http://www.themoneyillusion.com/?p=10738
- Central banks shouldn't be called banks
- More like a gold miner: creating an irredeemable asset (currency)

http://www.themoneyillusion.com/?p=10846
- More on libertarianism, utilitarianism, globalism (neoliberalism)

http://www.themoneyillusion.com/?p=10918
- Reaction to Operation Twist

http://www.themoneyillusion.com/?p=11083
- Discussion of Carter, Reagan, Volker and inflation

http://www.themoneyillusion.com/?p=11129
- Poor monetary policy > lower AD > lower oil price > slower development of renewable energies, more oil-dependent development in poorer countries, worse city-planning

http://www.themoneyillusion.com/?p=11191
- Just because QE2 didn't fix everything doesn't mean it would require trillions to do so
    - "It's the target, stupid"

http://www.themoneyillusion.com/?p=11209
- Why do immigrants want to come to America? Because of our high levels of consumption
- Half the entire capital stock is housing and home improvements (only includes private goods so no government infrastructure like roads)
    - Second is shopping

http://www.themoneyillusion.com/?p=11252
- Recurring theme in the blog: policymakers are reacting to how things *seem to be*, not what history, theory and logic tell us is actually going on

http://www.themoneyillusion.com/?p=11277

- Krugman defends ISLM
  - Thinks a macro model must at minimum include money, bonds and output
  - Sumner disagrees: thinks you need money and goods plus sticky prices
    - ISLM is too general to be useful: 3 market general equilibrium framework
  - Sumner favors an *ad hoc* approach to models
    - Use the simplest model that gets at the issues you are interested in
- Sumner's simple macro model
  - Start with a simple economy with money and goods (no bonds)
  - Supply and demand for money determines the price level and/or NGDP
  - Add wage/price stickiness and you get demand-side business cycles
  - Add interest rates and you get a couple things
    - Some influence on the demand for money
  - Add NGDP futures contracts. Monetary policy is changes in the price of NGDP futures contracts through OMOs (in order of safety and liquidity)
    - Now have a Phillips curve (or SRAS curve) to translate NGDP shocks into fluctuations in real output
    - Since we don't have NGDP futures, need to model expected NGDP as a function of lots of variables (past NGDP, current asset prices, TIPS spreads, consensus forecasts of economists, etc.)
      - There's a circularity problem here that isn't present with NGDP futures
  - It is more *useful* to take a partial equilibrium approach to macro

http://www.themoneyillusion.com/?p=10259

- Types of inequality
- "it's all in your head" is the stupidest saying in the English language
  - Everything is in your head!
- Michel Houellebecq says that inequality of appearance is the greatest source of inequality in rich countries

http://www.themoneyillusion.com/?p=11469

- Lots of points clarifying the market monetarist position
- Inflation measurements suck
- Average hourly wages are the only reasonably objective nominal aggregate that measures a sort of "inflation" (albeit input price inflation)
- "I'm now pretty much a total pragmatist; I no longer believe 'inflation' is an actual thing out there in the world, waiting for us to measure it more or less accurately

http://www.themoneyillusion.com/?p=11555

- What makes central banks special?
  - Monopoly over the supply of base money

    - Base money can be produced at near zero cost and in nearly unlimited quantities
    - Base money is the medium of account

http://www.themoneyillusion.com/?p=11579
- Nominal money supply, real money demand

http://www.themoneyillusion.com/?p=11687
- Moneyball and baseball analogy to macro
- Slugging percentage + on base percentage captures the *dual mandate* of hitting: getting on base and driving in runs
- Macro should focus on NGDP

http://www.themoneyillusion.com/?p=11965
- Wages are set on the basis of expected NGDP growth, not expected inflation
- Proof: in China wages have been rising at double digit rates for years despite much lower inflation rates

http://www.themoneyillusion.com/?p=11930
- Awesome post on genetics, ethics, utilitarianism

http://www.themoneyillusion.com/?p=12085
- Plymouth and the Pilgrims is a good example of why communism doesn't work: corn collectivism almost lead to their starving to death
- China during the Great Leap Forward (30 million people starved)
- Fear of socialism isn't some silly joke

http://www.themoneyillusion.com/?p=12022
- The 3 I-words need to be banned:
    - Inflation > NGDP growth
    - Income > consumption (economic inequality and taxes)
    - Interest rates > asset prices (transmission mechanism)

http://www.themoneyillusion.com/?p=12343
- Keynesians try to break up AD into sectors and use changes in business animal spirits, fiscal policy, consumer optimism, mortgage leading, trade balances etc. to explain AD, but ignore monetary policy

http://www.themoneyillusion.com/?p=12351
- Business cycles are caused by the Fed reacting with a lag
- Post after this is part 2

http://www.themoneyillusion.com/?p=12540
- Sumner was disappointed with Summer Wars, liked The Girl Who Leapt Through Time

(same director)

  - I agree, Summer Wars dragged. GWLTT was fun though

http://www.themoneyillusion.com/?p=12692

- Business cycle is about changes in MV

http://www.themoneyillusion.com/?p=12801

- Another EMH post

http://www.themoneyillusion.com/?p=12921

- Wage and price stickiness; corporate profits

http://www.themoneyillusion.com/?p=12985

- Australia hasn't had a recession since 1991, even though exports dropped significantly in 2008 and 2009

http://www.themoneyillusion.com/?p=13001

- More on business cycles

http://www.themoneyillusion.com/?p=13010

- "nothing in life is quite as important as you think it is while you are thinking about it"
- Sumner adds: "no cultural flaw is as bad as it seems when we are thinking about it"

http://www.themoneyillusion.com/?p=13010

- Rejection of "just deserts" and more utilitarianism

http://www.themoneyillusion.com/?p=13112

- Only conditional forecasts are worthwhile
- Unconditional forecasts are like the lottery

http://www.themoneyillusion.com/?p=13204

- "Hours worked" is the real variable that best picks up the business cycle
- Ratio of wages to NGDP per capita (W/NGDPPC) is the best way of picking up nominal shows that might throw the labor market out of equilibrium
- Important post for developing a business cycle model

http://www.themoneyillusion.com/?p=13244

- More on sticky wages (industry-level)
- Monopolistic competition means price stickiness
- Nominal GDP is it

http://www.themoneyillusion.com/?p=13294

- Explanation for why interest rates change

        - Some variable needs to adjust to equate Ms and Md in the period before prices and wages adjust to a change in Ms

http://www.themoneyillusion.com/?p=13330
- Analysis of Bernanke paper from 2003: totally market monetarist

http://www.themoneyillusion.com/?p=13308
- The Fed has a monopoly on the medium of account and therefore drives the nominal economy

http://www.themoneyillusion.com/?p=13358
- Need to be able to see through framing effects and get to the heart of the positive/normative distinction in problem-solving

http://www.themoneyillusion.com/?p=13353
- Full primer on market monetarism
- Comment:
    - What moves economies in the long run?
        - Z factor productivity (Solow model), M*V, and population
        - Productivity, tech and efficiency (Z), supply/demand of the MoA (M*V) and the size of the population

http://www.themoneyillusion.com/?p=13418
- Discussion on "stance of monetary policy"

http://www.themoneyillusion.com/?p=13434
- How Sumner describes himself: "obsessed with currency, dismissive of banking, and completely contemptuous for the interest rate view (liquidity effect)"
- In Fama's mind, the world is always and almost instantaneously in equilibrium. With this in mind, everything Fama has ever written makes sense

http://www.themoneyillusion.com/?p=13472
- Supply shocks are absolutely FATAL to an inflation-targeting monetary regime
    - Commenter pointed to hurricane Ike and Libya as supply shocks and later Fed/ECB policy tightening
    - Does the market price this in? Maybe the next time there's a supply shock in Europe I should short euro stocks expecting tighter monetary policy

http://www.themoneyillusion.com/?p=13454
- Response to common questions finance people ask about stimulus
- Australia is a good comparison to the US and Japan: do the Aussies have tighter money? Their interest rates are higher…

http://www.themoneyillusion.com/?p=13536

- Sloppy use of terminology leads to sloppy analysis

http://www.themoneyillusion.com/?p=13584

- If China's current account surplus is stealing American jobs, then what about Switzerland's?

http://www.themoneyillusion.com/?p=13510

- Challenges Feminism leading to women working and cultural differences explaining unemployment differences in US/EU

http://www.themoneyillusion.com/?p=13608

- Great critique of liberalism by Yglesias
- Another interesting tidbit: "everyone actually lives one decade; during the others they are just tourists passing through" Woah
- Politically-formative years are ages 15-21

http://www.themoneyillusion.com/?p=13623

- Large monetary bases are a sign of failed tight money, not easy money. Look at Japan and the US versus Australia

http://www.themoneyillusion.com/?p=13652

- "markets are market monetarist"
- Discusses a paper that says the financial crisis wasn't a factor in the 4Q07 recession

http://www.themoneyillusion.com/?p=13736

- Larry Summers looks pretty bad in all this

http://www.themoneyillusion.com/?p=13774

- Sumner's General Theory
    - MB and IOR as dual policy instruments
        - MB changes can be used to control both the level of NGDP and its trend growth rate
        - IOR can only be used to change the level of NGDP (similar to fiscal policy; one-time change in base velocity)
    - NGDP futures as the policy target
    - Actual NGDP as the policy goal
- Abandon attempts to find a monetary policy transmission mechanism since it's too complicated

http://www.themoneyillusion.com/?p=13829

- Post about shadow banking system and why it's not important

http://www.themoneyillusion.com/?p=13852

- Post about money multipliers and neutrality of money
- Money multipliers aren't useful
- Future expected NGDP and asset prices are the key transmission mechanisms

http://www.themoneyillusion.com/?p=13648

- Post about hedge fund performance

http://www.themoneyillusion.com/?p=13890

- Culture in economics (good discussion)
- Cultures develop one way or another to address specific problems faced by their society

http://www.themoneyillusion.com/?p=13925

- The best government economic policy:
    - Monetary policy to stabilize NGDP growth and expectations
    - Fiscal policy to produce a better P/Y split

http://www.themoneyillusion.com/?p=13919

- Interesting thoughts on higher-ed as the US's biggest export

http://www.themoneyillusion.com/?p=13949

- Great post on utilitarianism

http://www.themoneyillusion.com/?p=14274

- Rely on market predictions in forecasts (for policy-making)

http://www.themoneyillusion.com/?p=14283

- Monetary policy has always been about stable AD, and low inflation is just a means to that end

http://www.themoneyillusion.com/?p=14444

- Euro strengthening = price of oil in euro terms goes down
- Dollar strengthening = same in dollar terms
- If the price of oil is falling sharply in both currencies then it must be both

http://www.themoneyillusion.com/?p=14468

- Lower government spending is desirable but the Nordic countries show that neoliberal reforms are even more important

http://www.themoneyillusion.com/?p=14474

- Don't just assume the cause of all problems is "special interests" (occam's razor?)
- Example: arguments people make about Japan
    - BOJ's tight money policy pushes nominal rates to zero which keeps borrows like

    - the Japanese government afloat
    - BOJ's policy of deflation favors lenders, who are old people who have saved a lot, and this describes much of Japan's population
    - Which is it? And why aren't we talking about real interest rates?
- Remember: IT'S NOT A ZERO-SUM GAME

http://www.themoneyillusion.com/?p=14638
- Fall in bond yields, TIPS spreads and commodity prices = contractionary

http://www.themoneyillusion.com/?p=14668
- Margaret Thatcher predicted the euro crisis in 1990
- Fixed exchange rates suck
- Bretton Woods worked because of rapid growth and the Balassa-Samuelson effect

http://www.themoneyillusion.com/?p=14748
- Larry Summers again

http://www.themoneyillusion.com/?p=14684
- Economists think people care about inflation and not NGDP, but the opposite is true

http://www.themoneyillusion.com/?p=14794
- Demand for money depends on the amount of transactions and the opportunity cost of holding money
    - Md = f(NGDP, i); (M/P)d = f(RGDP, i)
    - The value of money is the share of NGDP that can be purchased with each dollar
        - (M/NGDP) = k = 1/V = f(i)
        - k is negatively related to the nominal interest rate

http://www.themoneyillusion.com/?p=14812
- Sumner seems to predict the actual form of QE3 here (June 10, 2012)

http://www.themoneyillusion.com/?p=14826
- Sumner's macro model (business cycles)

http://www.themoneyillusion.com/?p=14874
- Politicians and economists hate the market because the market is an unforgiving judge. It's pro-success, so when the market disagrees with them they call it irrational

http://www.themoneyillusion.com/?p=15058
- The Fed is holding down the positive effects of the China boom on the US

http://www.themoneyillusion.com/?p=15240
- Inverse relationship between MB/NGDP and NGDP trend growth

http://www.themoneyillusion.com/?p=15240

- Both sides of the NGDP targeting and stimulus debate in mid-2012

http://www.themoneyillusion.com/?p=15153

- Left versus right: good politics discussion (and how the markets come in)

http://www.themoneyillusion.com/?p=15308

- Macro is composed of 3 fields:
    - Long run RGDP growth
    - Nominal macro variables in the long run (P, NGDP, I, E, etc.)
    - Business cycles
- Money is all of #2 and half of #3
- This is a much simpler macro model

http://www.themoneyillusion.com/?p=15389

- Refutation of the household debt explanation for the recession
- Figure this out (comments are good for this)

http://www.themoneyillusion.com/?p=15593

- MB*V(i) = NGDP, where V is positively related to the 5 year bond yield

http://www.themoneyillusion.com/?p=15758

- Sticky wages is very complicated
- More than just long term wage contracts
    - Also minimum wages (raised sharply), government unions, money illusion at the zero rate increase point, protect sectors like education and healthcare, etc.
- Arguments that involve the hit to consumers from mortgage defaults or the hit to banking are channels that reduce AD, so *ipso facto* tight money problems