The Trump Stimulus of late 2017
the 2019 China/USA Trade War

November 1st, 2019

But first: the October jobs report

- Non-farm payroll jobs up 128,000 in October
- Big August/Sept revision UP now average 200,000 per month vs 160,000
- 9 month average 171,000
- U3 3.6%, despite household jobs, up 600,000

- How LFPR jumped to 63.3% from 62.9% October of last year

- manufacturing down 36,000, WHY???

The Trump stimulus Package: As advertised:

- Taxes were cut and spending increased, totaling around 1% of real GDP.
- The Policies were Championed by the White House as Supply Side Policies: in other words they were supposed to increase investment and productivity growth, thereby raising the sustainable growth rate for the U.S. economy.
- Real GDP growth, The White House argued, would move to 3.5% from 2.25%, and given the hjigher sustainable pace, no inflation acceleration.

The alternative view? The Keynesian view:The tax cuts and spending increases would effect the demand side of the economy

- We would see an increase in consumption growth, given more $ in people's hands, from the tax cuts.

- We would see an acceleration in government spending growth, given increases in both defense and non-defense spending.

How do things look, almost 2 years later?

	2019:Q3 vs. 2017:Q4 (annualized)	2017:Q4 vs. 2016:Q1 (annualized)
real GDP	2.4%	2.5%
Consumption	2.7%	2.8%
Business investment	3.4%	4.6%
structures	-2.0%	5.2%
equipment	2.4%	4.5%
software	8.3%	4.3%
housing investment	-2.4%	2.6%
inventory investment		
net export		
exports	0.1%	4.2%
imports	1.8%	5.0%
government	2.3%	0.8%

Now a review of Section IV of the 2018 exam. We are presented with the following data:

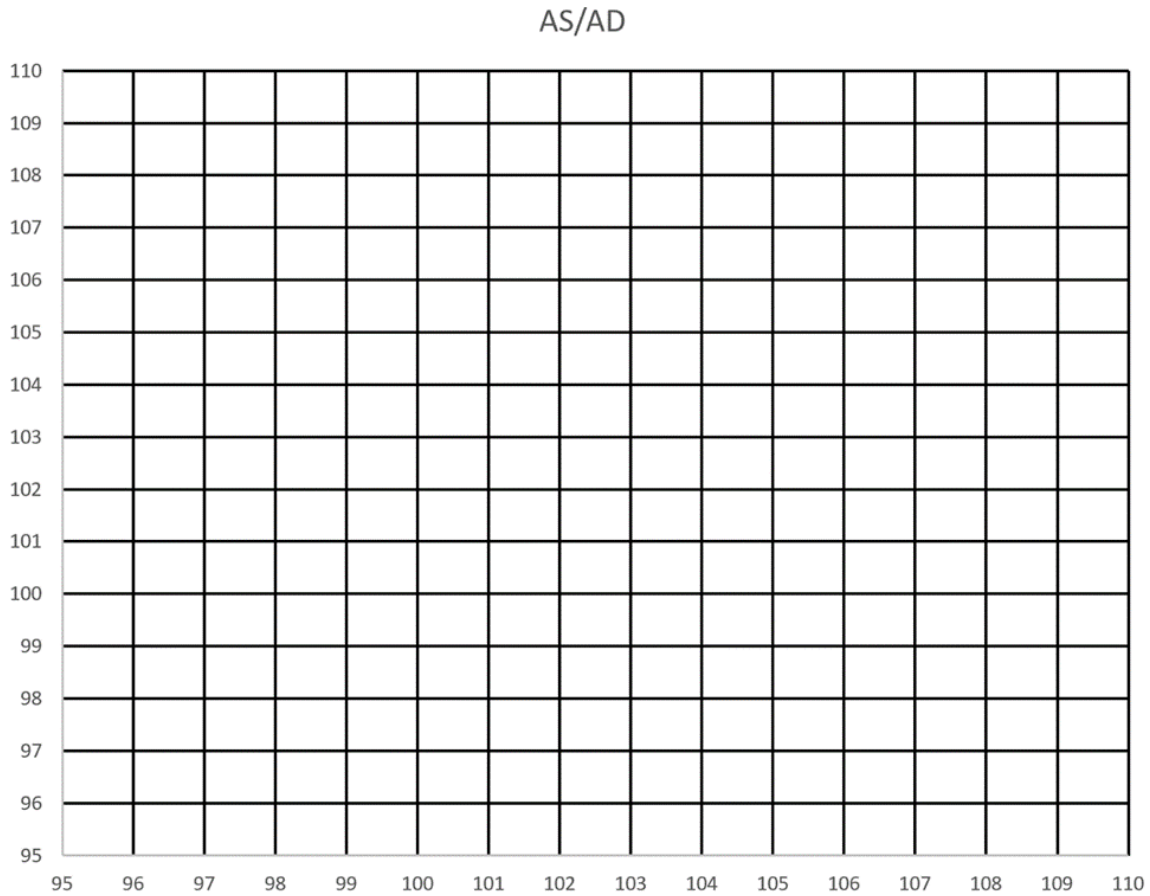
	Q4:2022	Q4:2023	Q4:2024
crude oil price ($/bbl.)	$60		
Unemployment	4.0%	5.0%	6.0%
CPI	2.0%	5.0%	0.0%
CPI: index level	100		
CPI, excluding energy	2.0%		
Real U.S. Output: Index level	100.00		
Federal Government Spending	$2.0 trillion	$2.2 trillion	$2.5 trillion
Federal Taxes Collected	$1.7 trillion	$1.3 trillion	$1.5 trillion
Corporate/government spread	2.0%	2.0%	4.5%
10-year Government bond yield			2.5%
10-year yield minus TIPS yield	2.0%	2.5%	2.0%

Key Equilibrium Values:
LTSG = 2.5%
$U^* = 4\%$
$\pi^* = 2\%$
oil = 10% of the CPI
Phillips Curve $\alpha = 0.5$
Okun coeffficient = 1.5

1. Assume a standard Phillips curve successfully predicts the CPI:ex energy. Based upon the information given in the tables above, compute the CPI:ex energy, for Q4:2023 and Q4:2024
2. Use your answers to question “1” and the information in the table to compute the oil price levels for Q4:2023 and Q4:2024.

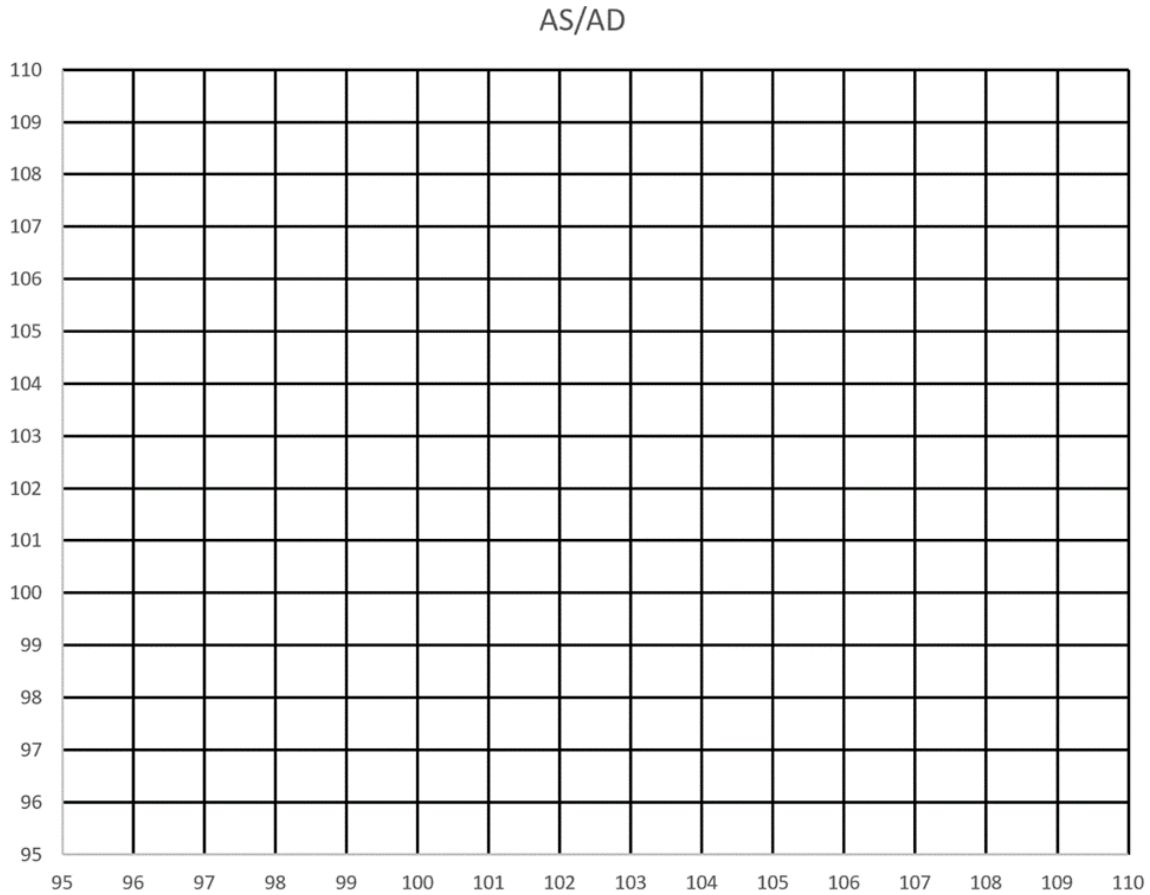
In the space provided above label the axes and given the data in the tables above, draw all three curves, and identify equilibrium for Q4:2022.

Suppose we did not have an oil shock in 2023. Instead, suppose the economy growth at its long term sustainable pace. Using the same space at the top of this page, provide the 2023 AD and AS curves that allow you to depict dynamic equilibrium from Q4:2022 through Q4:2023.

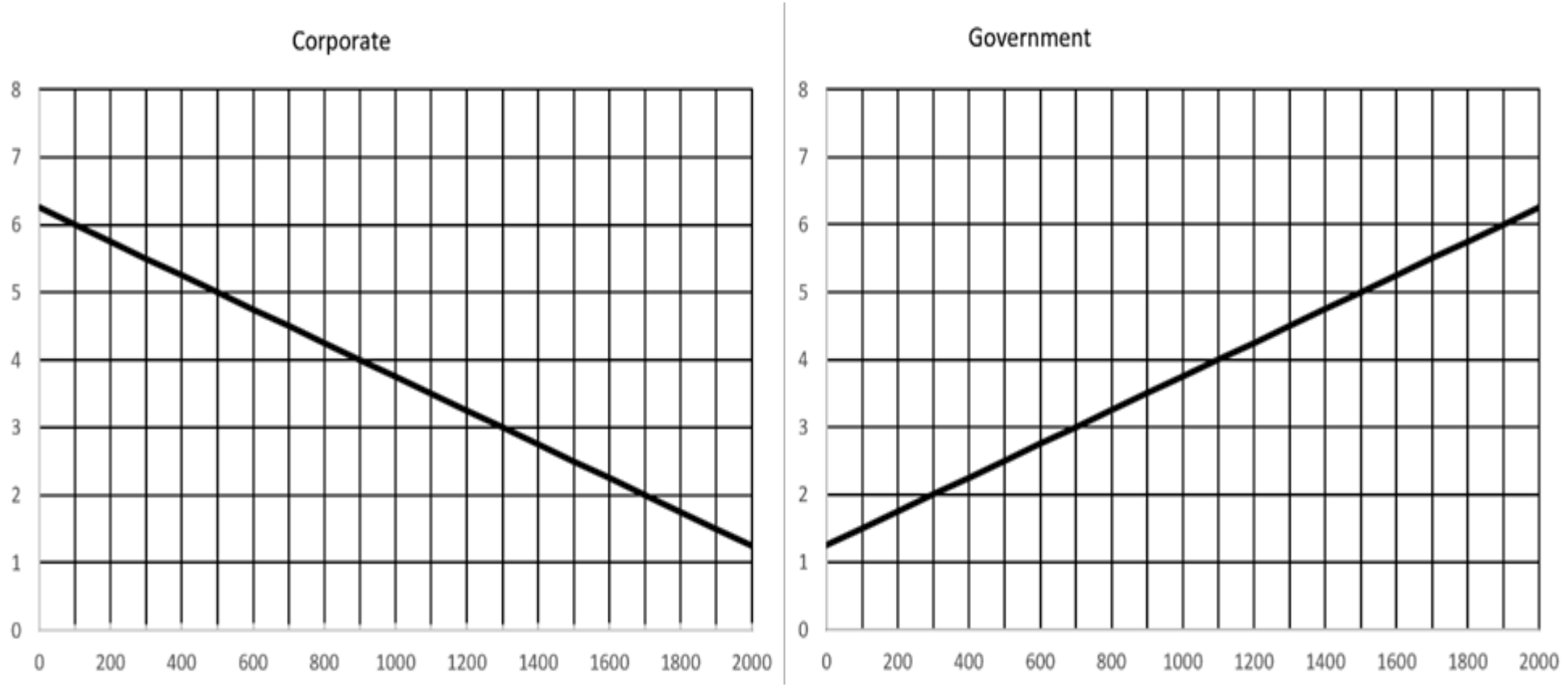


We now use the quadrant above to depict AD/AS analysis for the 2023 oil shock.
Draw the 2023 LRAS Curve and the 2023 SRAS curve assuming dynamic equilibrium

1. Use Okun's law to calculate the value for 2023 output
2. Use the data in the tables to calculate the value for the 2023 price level
3. Depict the output/price value for 2023 on the quadrant above (draw the "dot")
4. Now draw the AD and SRAS curves that capture the oil price shock



We now will consider the full set of events that unfolded, from 2022 through 2024, using our loanable funds diagrams. In the two quadrants above, label the axes and the line in each graph.
Now, using the information presented in the table at the top of this question, add the additional lines needed to complete the picture for 2022. (Hint: Make sure the lines you add produce the correct equilibrium levels in both quadrants.)
Now we consider 2024. Consider the description of the second blow that hits the U.S. economy. What curves would you expect to shift, and in which direction?
For 2024, using the graph and the information in the table above, determine the equilibrium levels in the government quadrant. (Briefly explain) then draw curves that intersect.



1. Again, for 2024, using your results from question 8 and the information in the table above, calculate the equilibrium values in the corporate borrowing and lending space. (briefly explain)

1. Draw the curve(s) that intersect at this new equilibrium.
2. One economist, contemplating 2024, remarked, “The flow of funds data make it clear that there was a rise for the savings rate, and I think that played a material role in the plunge for the economy”. What phrase did John Maynard Keynes use, to describe the notion that rising savings can drive the economy lower?
3. Assume that 100% of household savings was used to buy either corporate or government bonds. a. Based upon the data in the table provided and the values on your charts, calculate total savings in 2024 and 2022.

a. Did households save more in 2024 than in 2022?

1. Some economists argue that if households did save more and spend less, the loanable funds model suggests the economy would not suffer. Explain their line of reasoning.

1. How does our expanded loanable funds model allow us to reject the ideas described in question 15. Put differently, why did higher savings fail to help the economy in 2024?