

# **Empirical Business Cycle Modelling and Policy in the Aftermath of the Financial Crisis**

Panel discussion

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- See, for example, Pagan-Robertson, Chauvet-Huang, Monacelli, Mertens-Ravn, Dungey-Fry, Caldara, Bataa-Osborn-Sensier-van Dijk, Ravazzolo-Rothman

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- See also Rolnick's interview with Sargent (FRB Mpls, forthcoming)

# Good questions

- Could we have foreseen the crisis?
- Could we have handled the crisis better?
- What is missing in the current generation of models?

# Could we have foreseen the crisis?

- We underestimated the risks building up in the world economy
- Theorists warned us (e.g., Rajan, 2005)
- We ignored some very important data (debt, leverage, short term financing, lending standards, low risk premia)
- We underestimated the problem of moral hazard and other risks in financial intermediaries

# Could we have handled the crisis better?

- The implications of the ZLB could have been studied earlier
- "Unconventional" measures could have been better prepared
- Different "haircuts" on government bonds
- Positive effects of fiscal stimulus probably overstated
- International co-operation in supervision and regulation was delayed by nationalism
- We may have overestimated the effects of the crisis (in Sweden)

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- Adrian knows