

Government as a Cause of the
2008 Financial Crisis:
A Reassessment After 10 Years

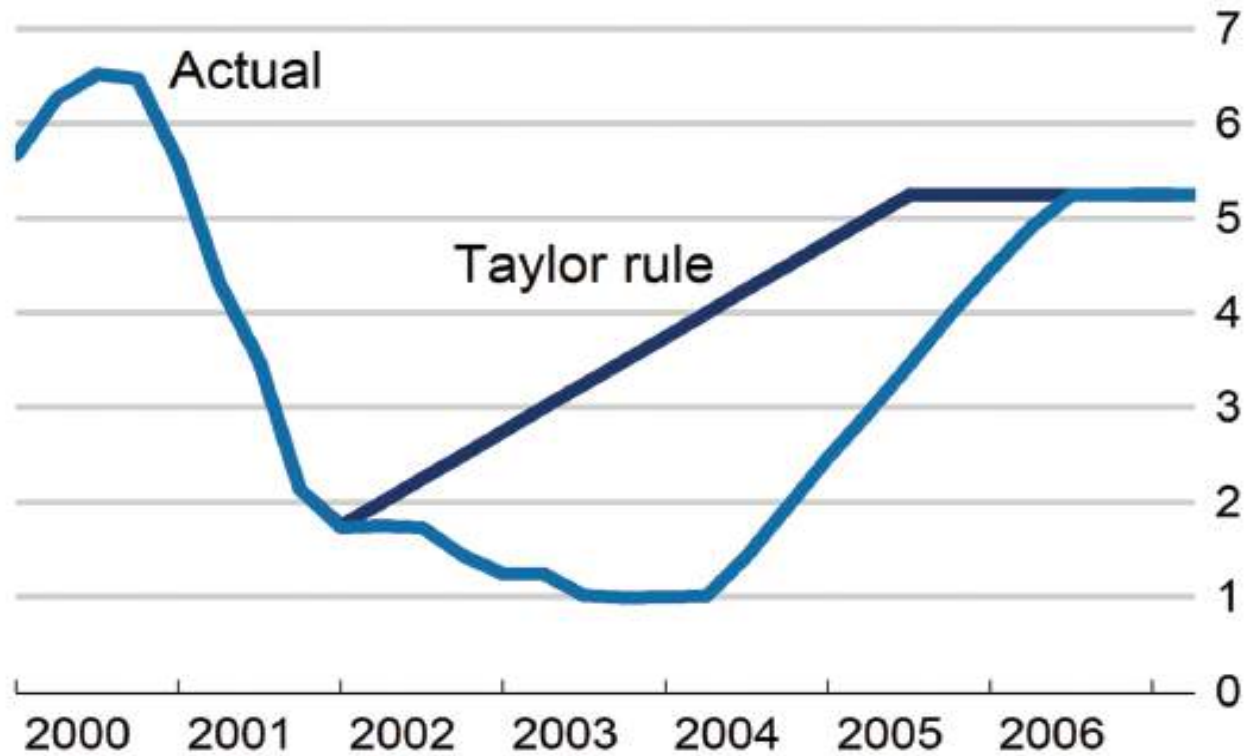
John B. Taylor

October 19, 2018

Chart from *The Economist*, October 18, 2007

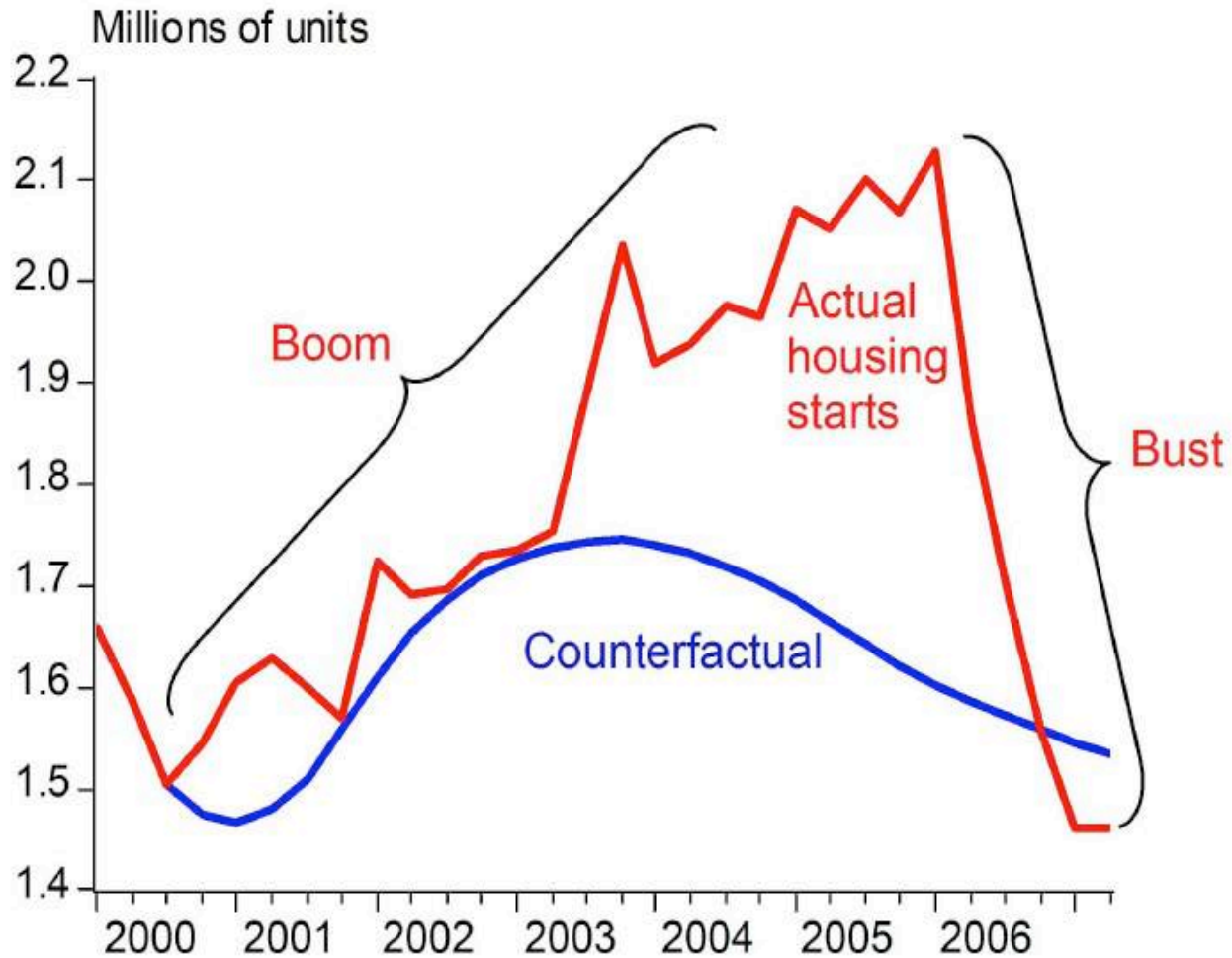
Loose fitting

Federal funds rate, actual and counterfactual, (in percent)



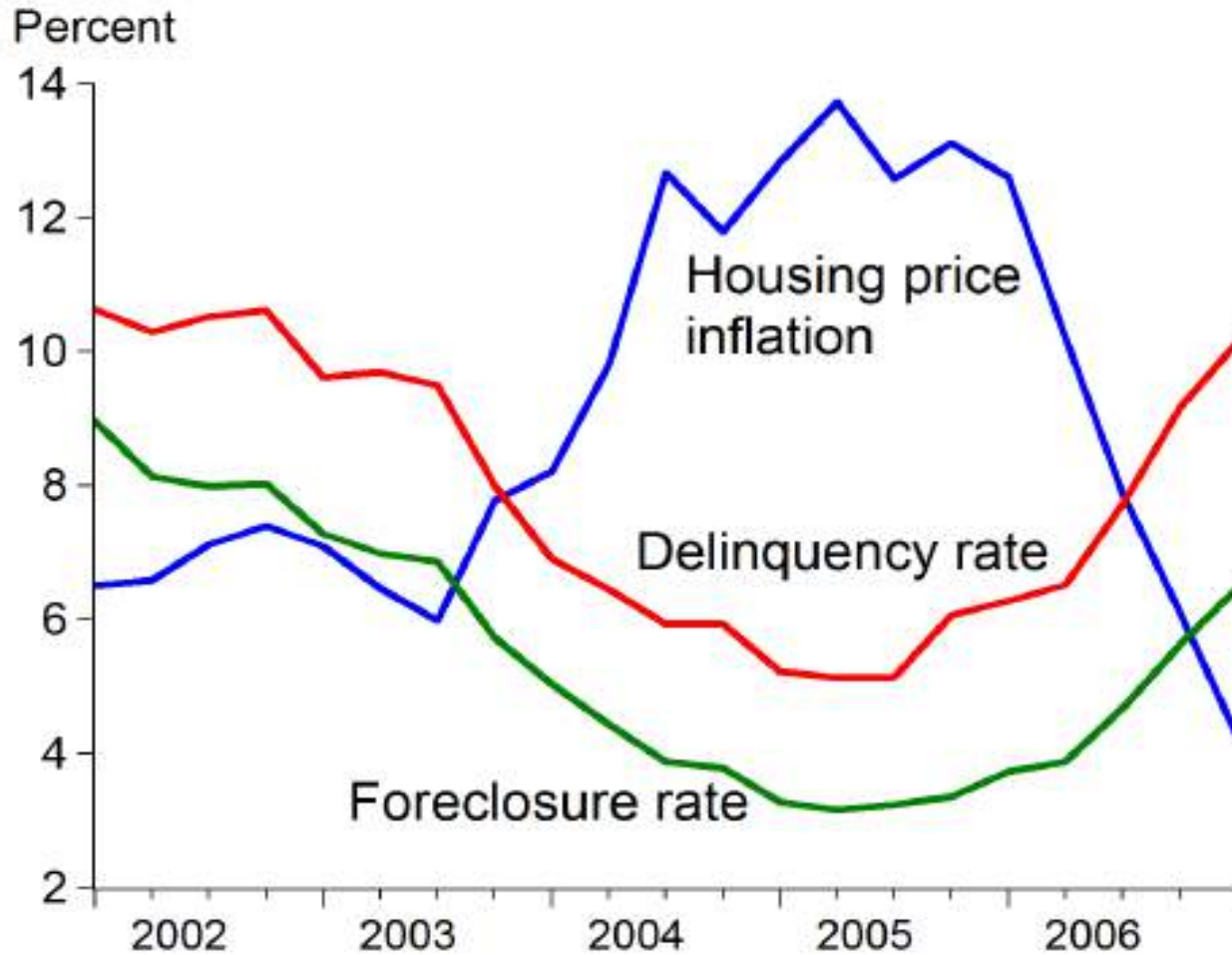
Taylor (2007)

The Boom-Bust in Housing Starts Compared with the Counterfactual



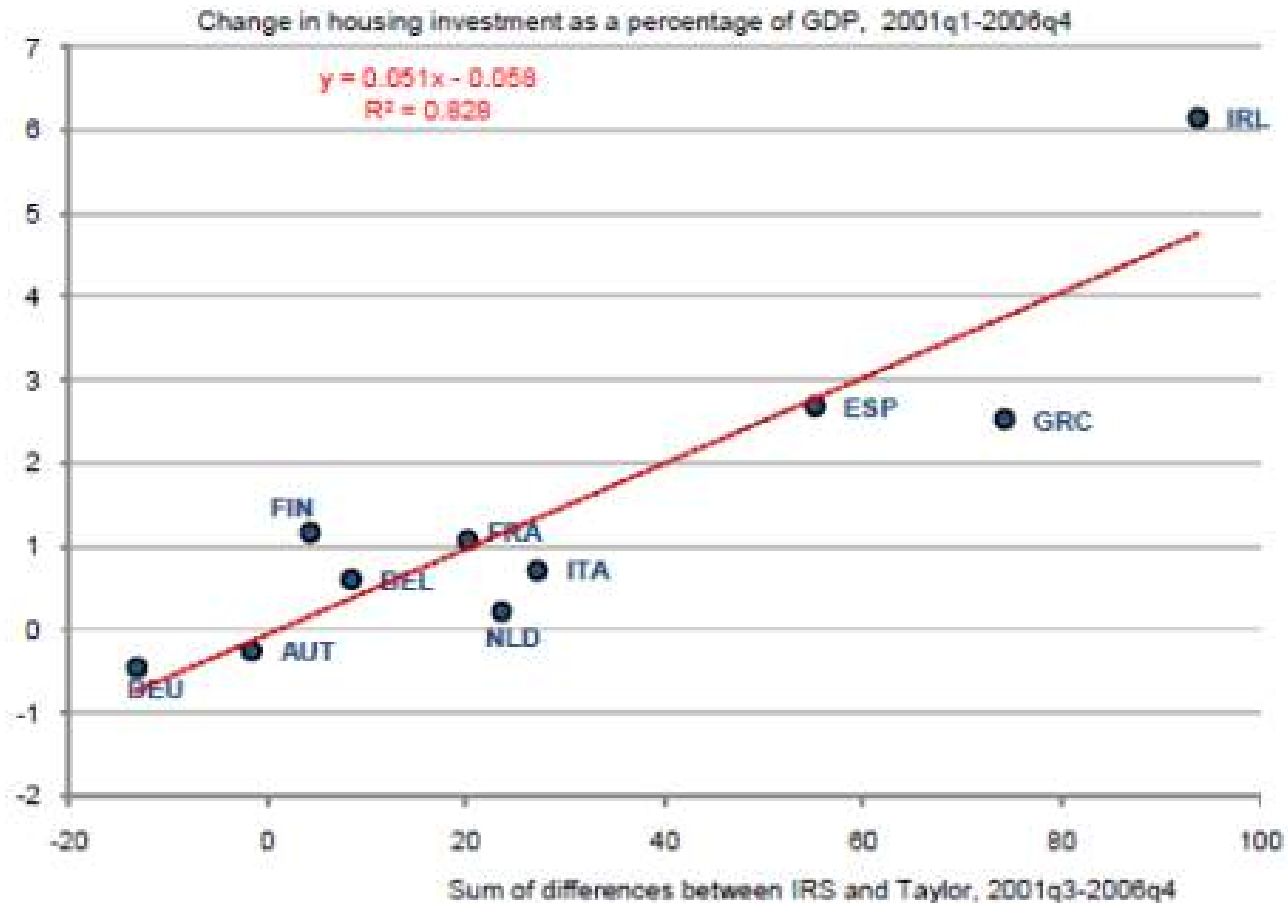
Taylor (2007)

House Prices and Delinquencies and Foreclosures on Subprime Adjustable-Rate Mortgages



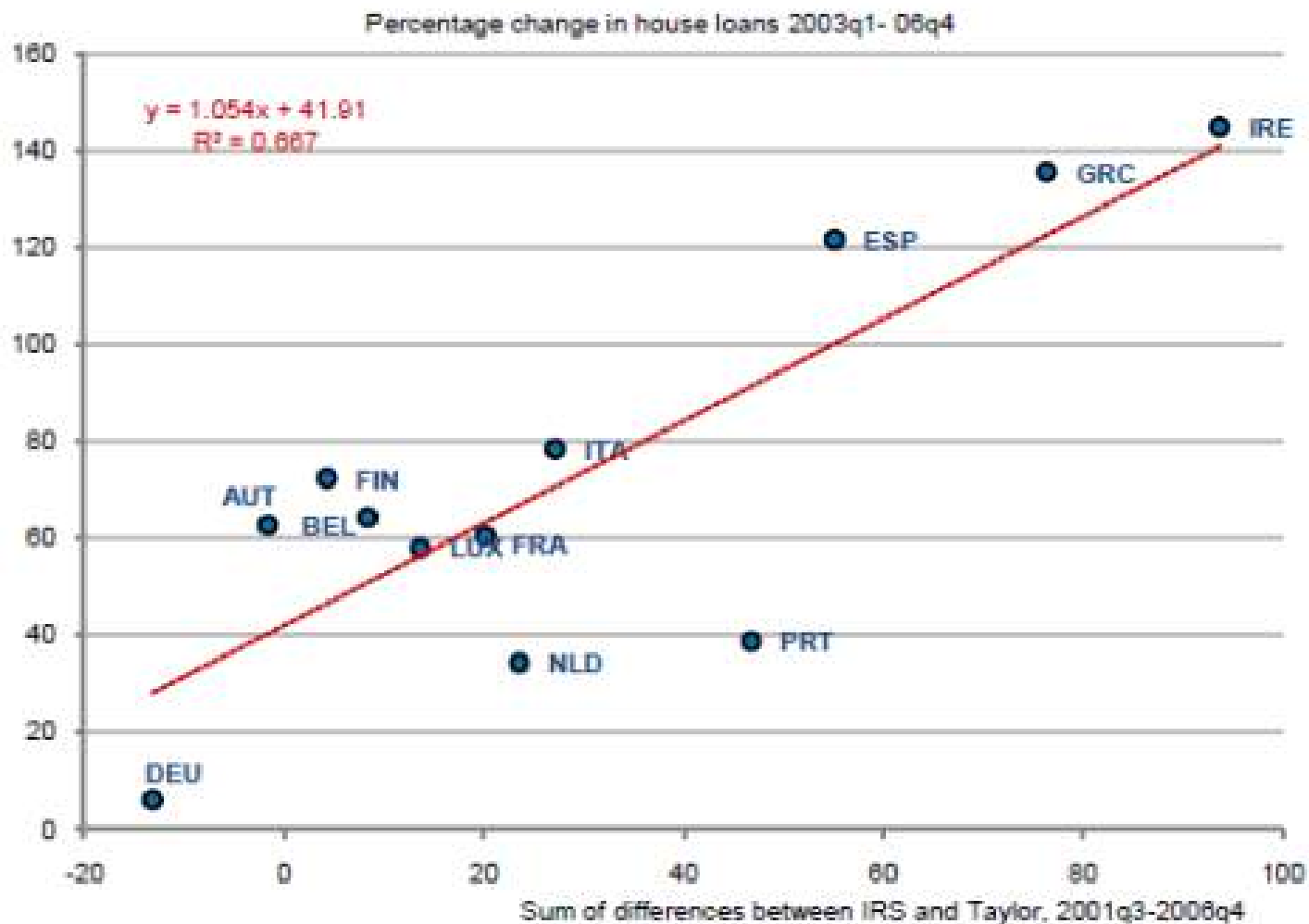
Taylor (2007)

Housing investment versus differences between IRS and Taylor

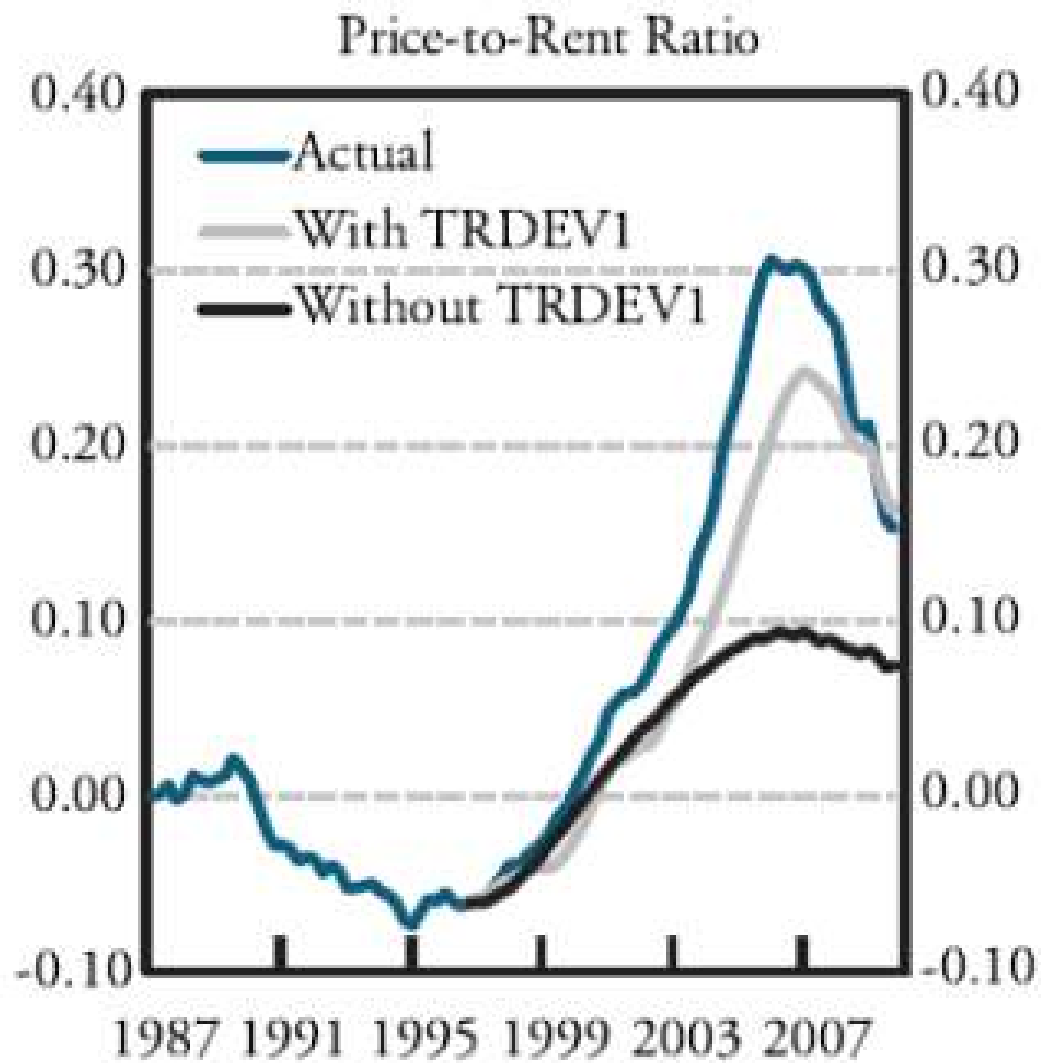


Source: Ahrend, Cournede, and Price (OECD)

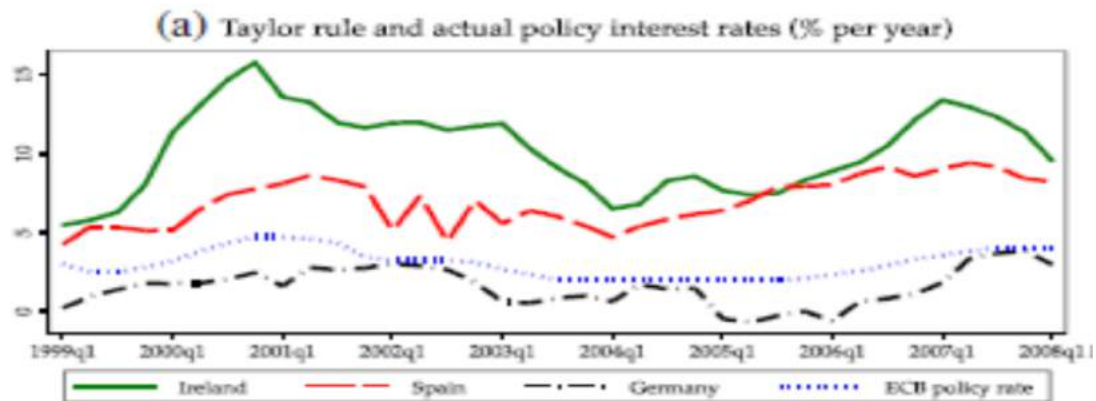
House loans versus deviation from Taylor



Source: Ahrend, Cournede, Price

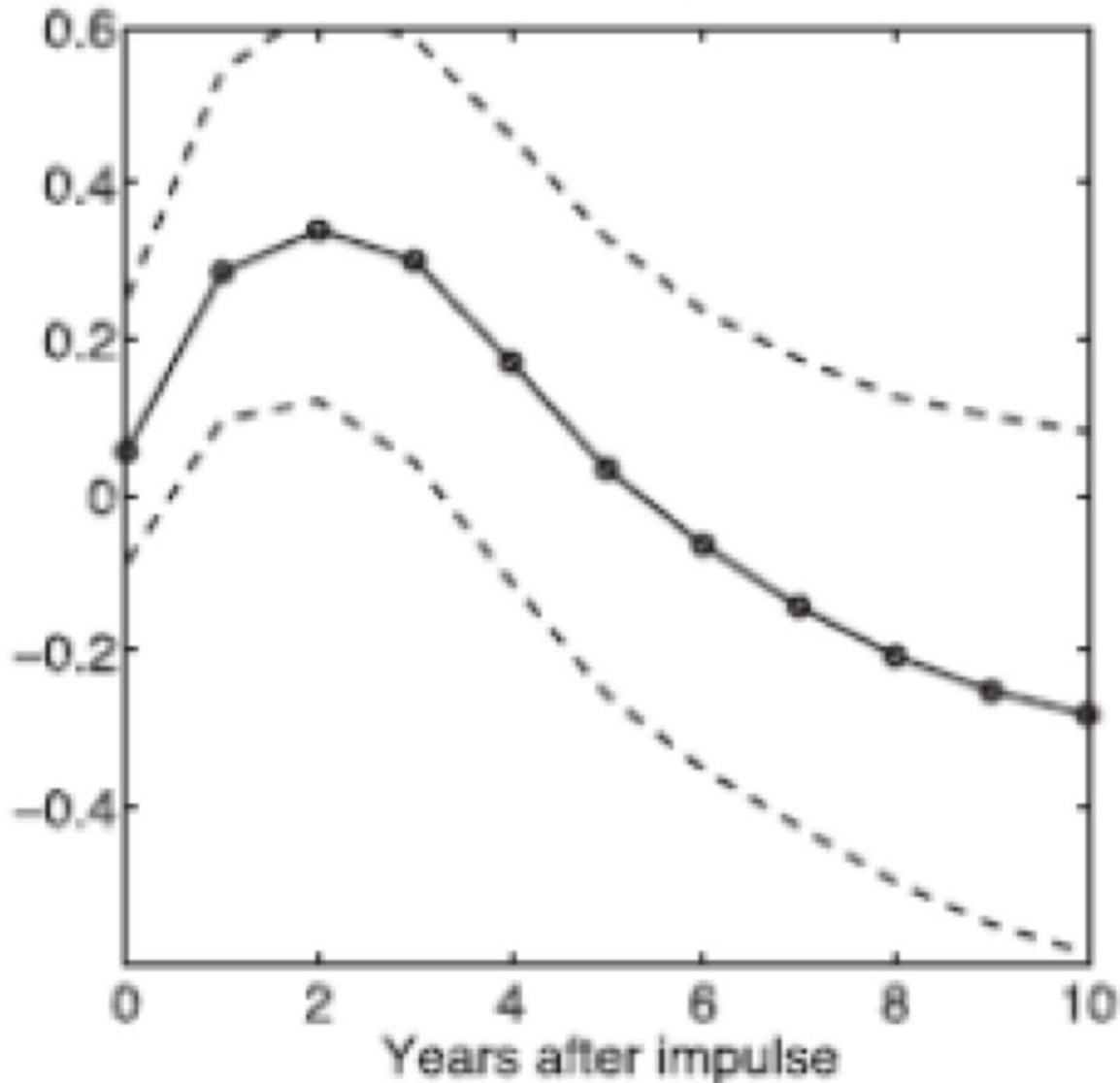


Source: George Kahn



Source: Oscar Jordà, Moritz Schularick, Alan Taylor

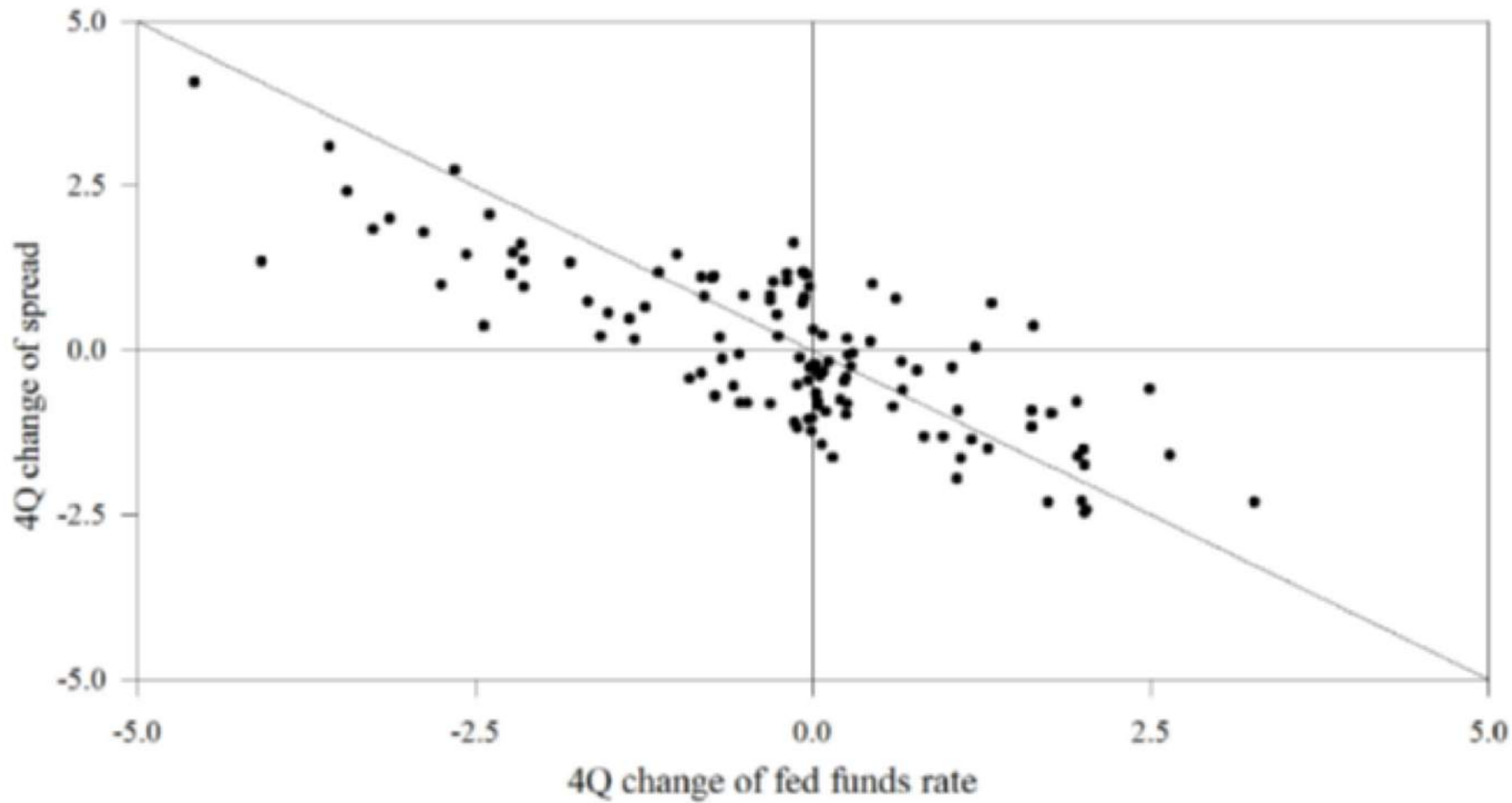
Impact of mortgage lending spread shock on real GDP



Impulse response function from VAR estimated from 30 countries over 1960 -2012

Source: Mian, Sufi, Verner

Changes in the Fed Funds Target and the Term Spread



Source: Tobias Adrian, Arturo Estrella, Hyun Song Shin

Doubting Ben

Number of economists who agreed with the following statement in surveys conducted by The Wall Street Journal this week.

'Excessively easy Fed policy in the first half of the decade helped cause a bubble in house prices'

Monthly survey of Wall Street and business economists

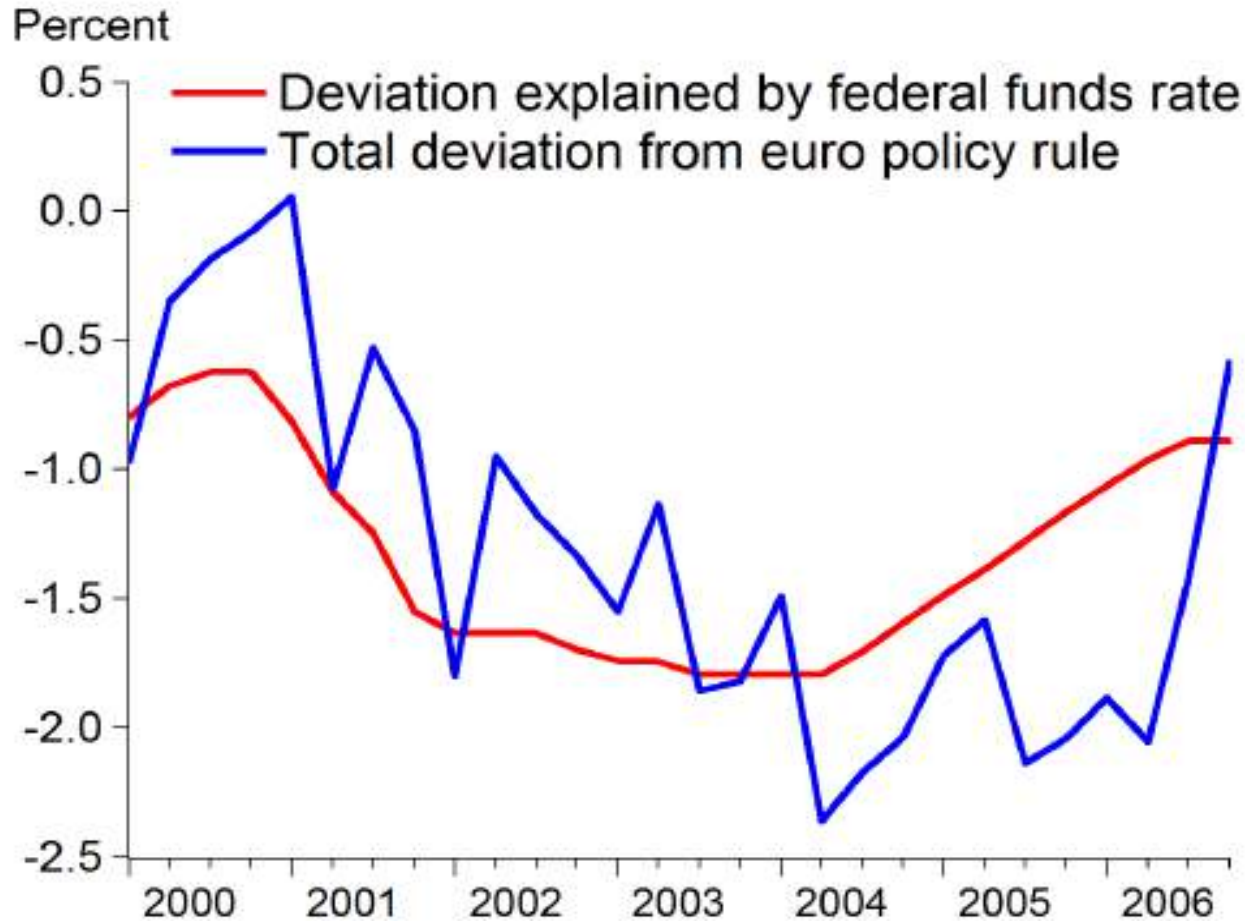


Survey of academic economists specializing in monetary policy*



*WSJ survey of professors in the National Bureau of Economics monetary policy program

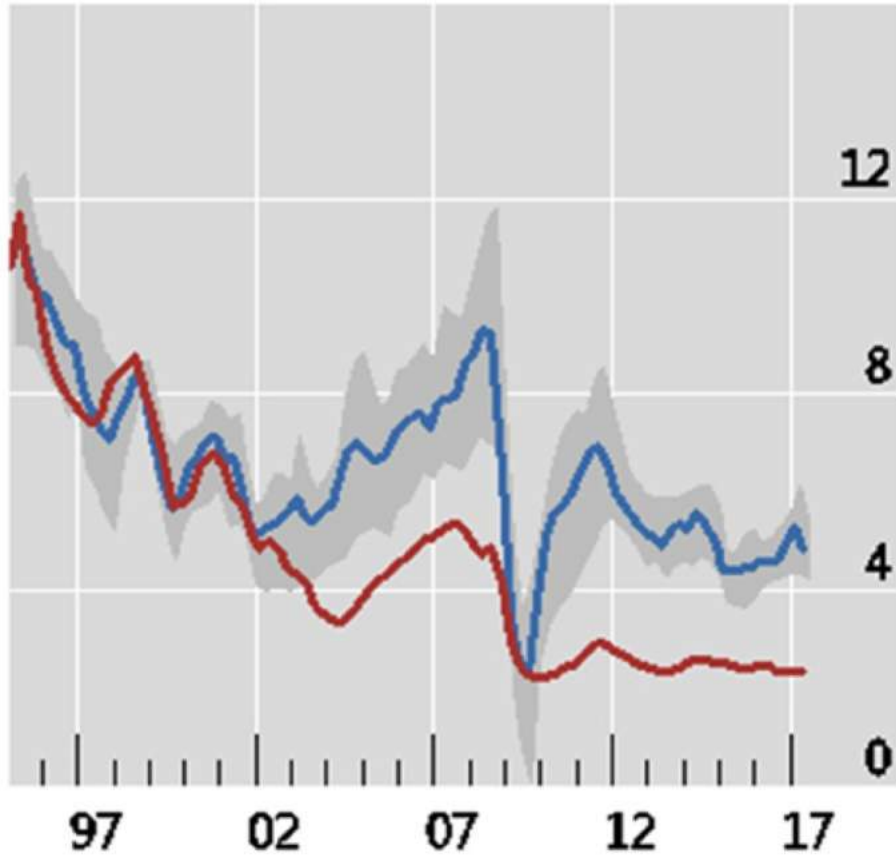
Actual Deviations from Eurozone Policy Rule and Deviations Based on the Federal Funds Rate



Source: Taylor (2007)

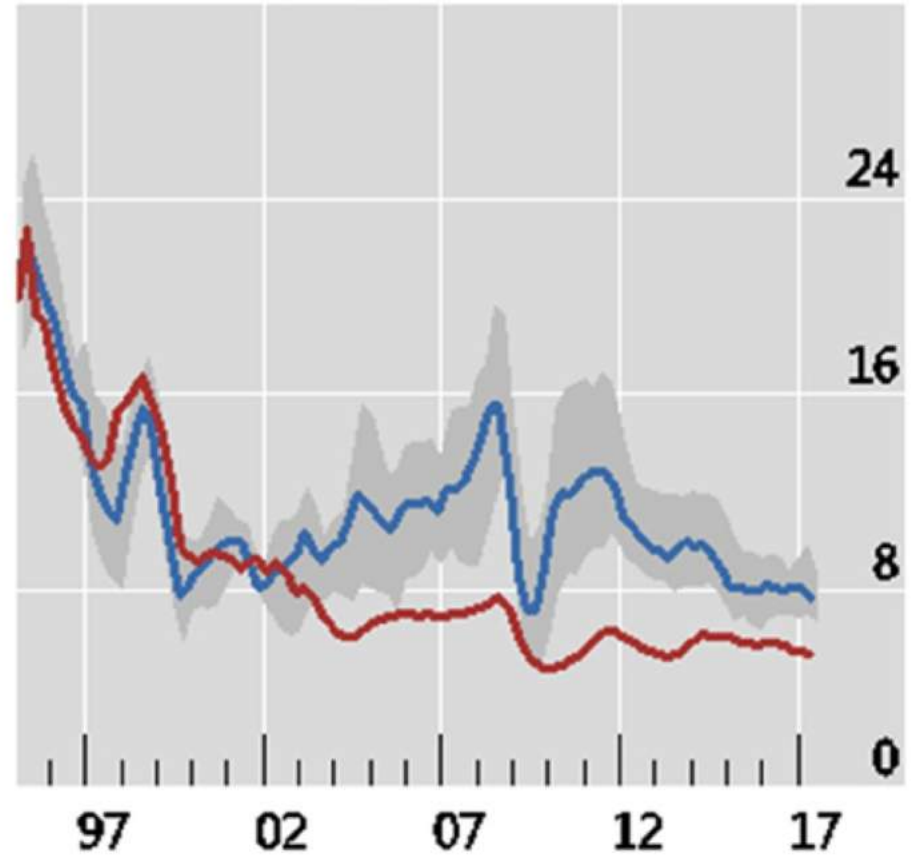
Global

percent



Emerging markets

percent



— Policy rate — Taylor rule

— Range of Taylor rates

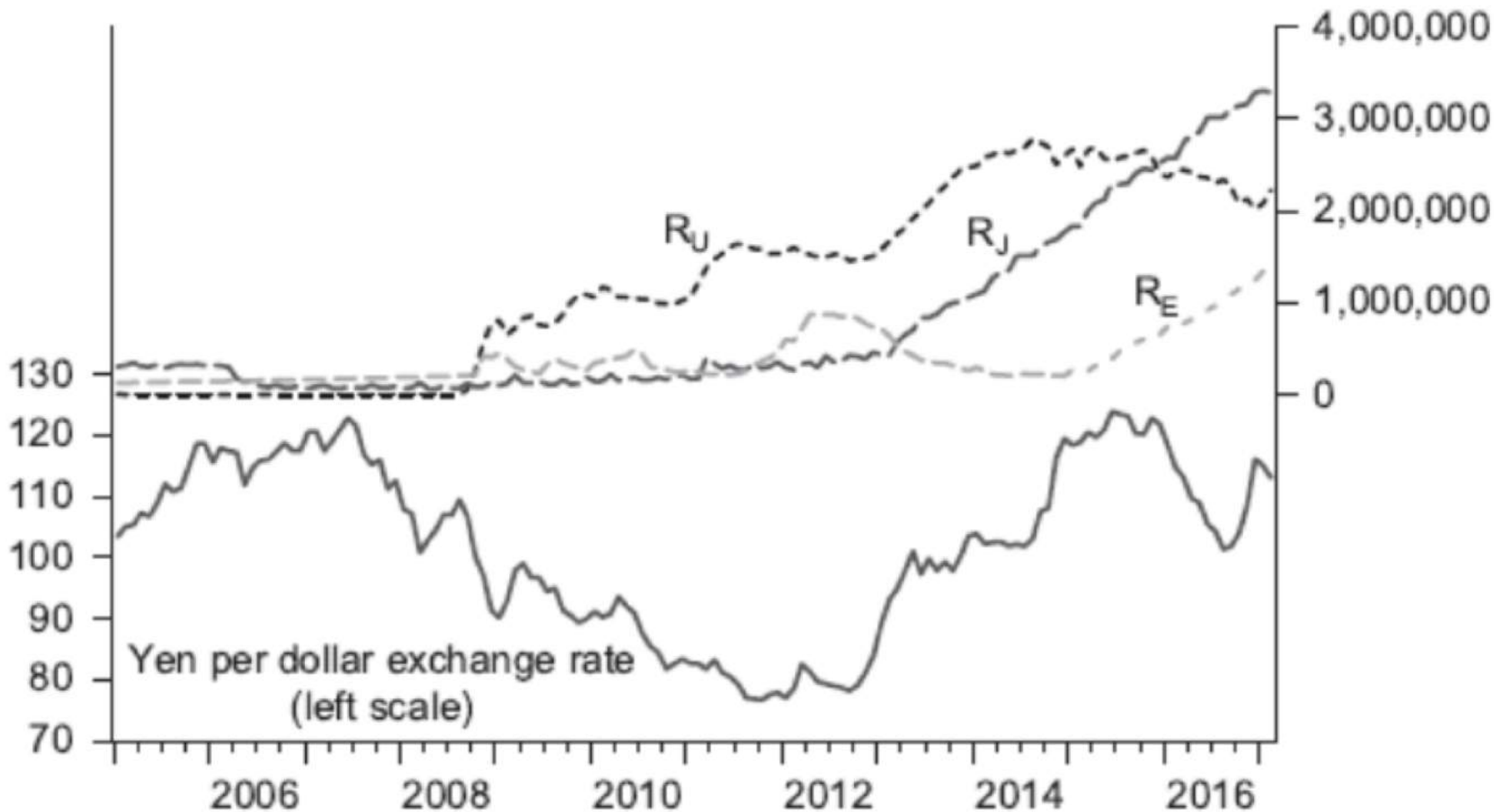
Source: Boris Hofmann, BIS (2018)

	R_U	R_J	R_E	R_S	I_U	I_J	I_E	I_S
R_U	1.00							
R_J	0.72	1.00						
R_E	0.49	0.64	1.00					
R_S	0.89	0.85	0.69	1.00				
I_U	-0.77	-0.36	-0.44	-0.58	1.00			
I_J	-0.53	-0.45	-0.37	-0.48	0.49	1.00		
I_E	-0.81	-0.57	-0.51	-0.71	0.76	0.87	1.00	
I_S	-0.84	-0.61	-0.59	-0.76	0.78	0.85	0.97	1.00

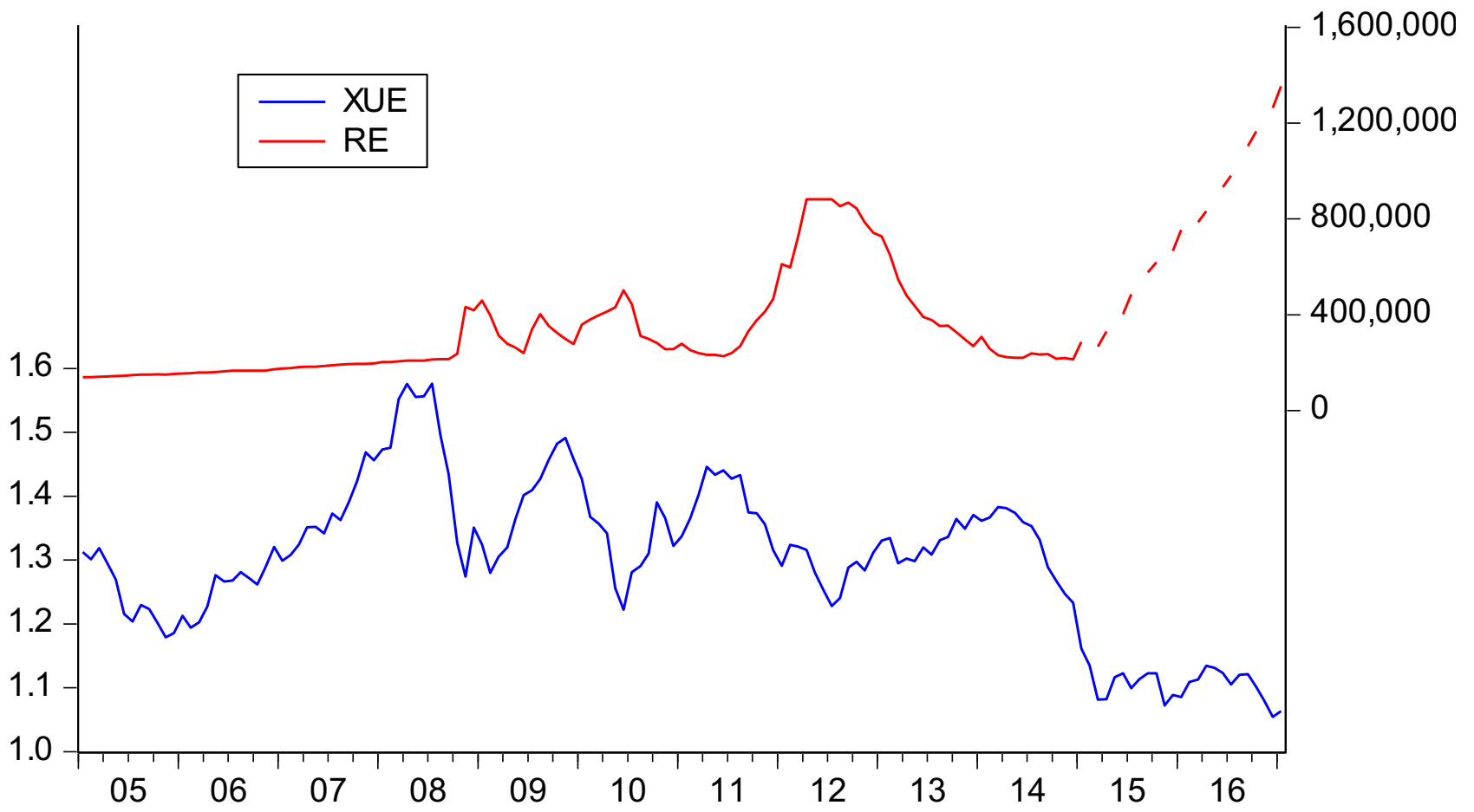
Sample: 2005.1 2017.5

Correlations Between Reserve Balances and Interest Rates

Source: Taylor (2018)



Source: Taylor (2018)



The Euro-Dollar Exchange Rate and Reserve Balances at the ECB

Source: Taylor (2018)