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)

Actual

Taylor rule

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

Change in housing investment as a percentage of GDP, 2001q1-2006q4

\[ y = 0.051x - 0.068 \]
\[ R^2 = 0.828 \]

Source: Ahrend, Cournede, and Price (OECD)
House loans versus deviation from Taylor

Percentage change in house loans 2003q1- 06q4

$y = 1.054x + 41.91$

$R^2 = 0.667$

Source: Ahrend, Cournede, Price
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’

<table>
<thead>
<tr>
<th>Monthly survey of Wall Street and business economists</th>
<th>Survey of academic economists specializing in monetary policy*</th>
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<tr>
<td>Yes 42</td>
<td>Yes 13</td>
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<td>No 12</td>
<td>No 14</td>
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*WSJ survey of professors in the National Bureau of Economics monetary policy program

Hilsenrath (2010)
Actual Deviations from Eurozone Policy Rule and Deviations Based on the Federal Funds Rate

Source: Taylor (2007)
Source: Boris Hofmann, BIS (2018)
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</tbody>
</table>

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)