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Speaker

Dr Seppo Honkapohja

Member of the Board, Bank of Finland

Member of Academia Europaea



Persistent Slowdowns, Expectations and Macroeconomic Policy

on

Thursday, 21 April 2016 at 4:30 pm

at

Connie Fan Multi-media Conference Room

4/F Cheng Yick-chi Building

City University of Hong Kong

Tat Chee Avenue, Kowloon

Abstract

Economic recovery from the financial crisis and Great Recession have been sluggish in advanced market economies and some observers have argued that stagnation may become the new norm. Low confidence and pessimistic expectations are one possible explanation for such persistent slowdowns. Many central banks have lowered their interest rates close to zero in response to the crisis since 2008. Large scale asset purchases have been used as a tool for easing of monetary policy in the regime of effectively zero interest rates. Government introduced expansionary fiscal policies to alleviate the recession in 2008–9. I present an overview of macroeconomic models that emphasize slowdowns due to low confidence. Monetary policy regimes based on interest rate setting using a Taylor rule may lead to persistent slowdowns after large negative shocks to economic activity and expectations. Recent research has focused possible remedies to such possibilities via macroeconomic policies. I examine economic dynamics using a stylized model of persistent slowdowns due to large pessimistic shocks to expectations. Using the model I examine the analytics of macroeconomic policies in a persistent slowdown. With zero policy interest rates several central banks introduced asset purchase programs (APP) and I examine theoretical basis of an APP. I argue that such policies can be effective in moving the economy out of the slowdown situation. I also examine the analytics of expansionary fiscal policies toward a persistent slowdown situation. A temporary fiscal stimulus, appropriately tailored in magnitude and duration, can be effective.

Biography

Dr Seppo Honkapohja, has been a Member of the Board of the Bank of Finland since 2008, with responsibility for scientific research, currency supply, market operations and payments, personnel and the risk control of investment activities and monetary policy.

Dr Honkapohja joined the Bank of Finland from the academic world. He was Professor of International Macroeconomics at the University of Cambridge in 2004–2007. His prior career includes Professorships with the Academy of Finland, University of Helsinki and Turku School of Economics and Business Administration. He is Member of Academia Europaea and of Finnish Academy of Science and Letters, Fellow of the Econometric Society and of the European Economic Association and has an honorary Doctorate from University of Turku. He is Vice Chairman of the Board of the University of Helsinki since 2014. Dr Honkapohja's research focuses on macro and monetary economics, especially expectations formation and macroeconomic policy. His publications in English include over 80 articles in refereed journals and collected volumes. He has authored or edited 18 books and reports.

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Enquiries:

Office of the Vice-President
(Research and Technology)

Tel: 3442 9049

Fax: 3442 0322

Email: vprrtdl@cityu.edu.hk



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