

## Problem Set 2

14.71

Due November 12, 2009

### 1. The Golden Age

- a) What and when was The Golden Age of Economic Growth?
- b) What caused it to start?
- c) What caused it to end?
- d) Why were there no financial crises during The Golden Age?
- e) How are the absence of financial crises and economic equality linked?

### 2. The 1970s

- a) What and when were the oil crises of the 1970s?
- b) Why did the US not have a financial crisis in the 1970s?
- c) How did the US economy fare after the first oil crisis?
- d) Why did the US economy fare differently after the oil crises around 2000?
- e) Explain briefly why the events of the 1970s were a challenge for economic theory and how economists responded.

### 3. The 1990s

- a) What led to the Japanese crisis and the lost decade of the 1990s?
- b) What does Koo mean by a “balance sheet recession”?
- c) Which macroeconomic policies work and don’t work in a balance sheet recession?
- d) Explain the difference between a balance sheet recession and a liquidity trap.
- e) Briefly discuss the pros and cons of Krugman’s policy proposal for Japan.

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