

**Presentation on the state of the global economy
June 2013**

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PRESIDENT OF THE LEAGUE OF CORPORATE STRATEGY AND ACCOUNTING**

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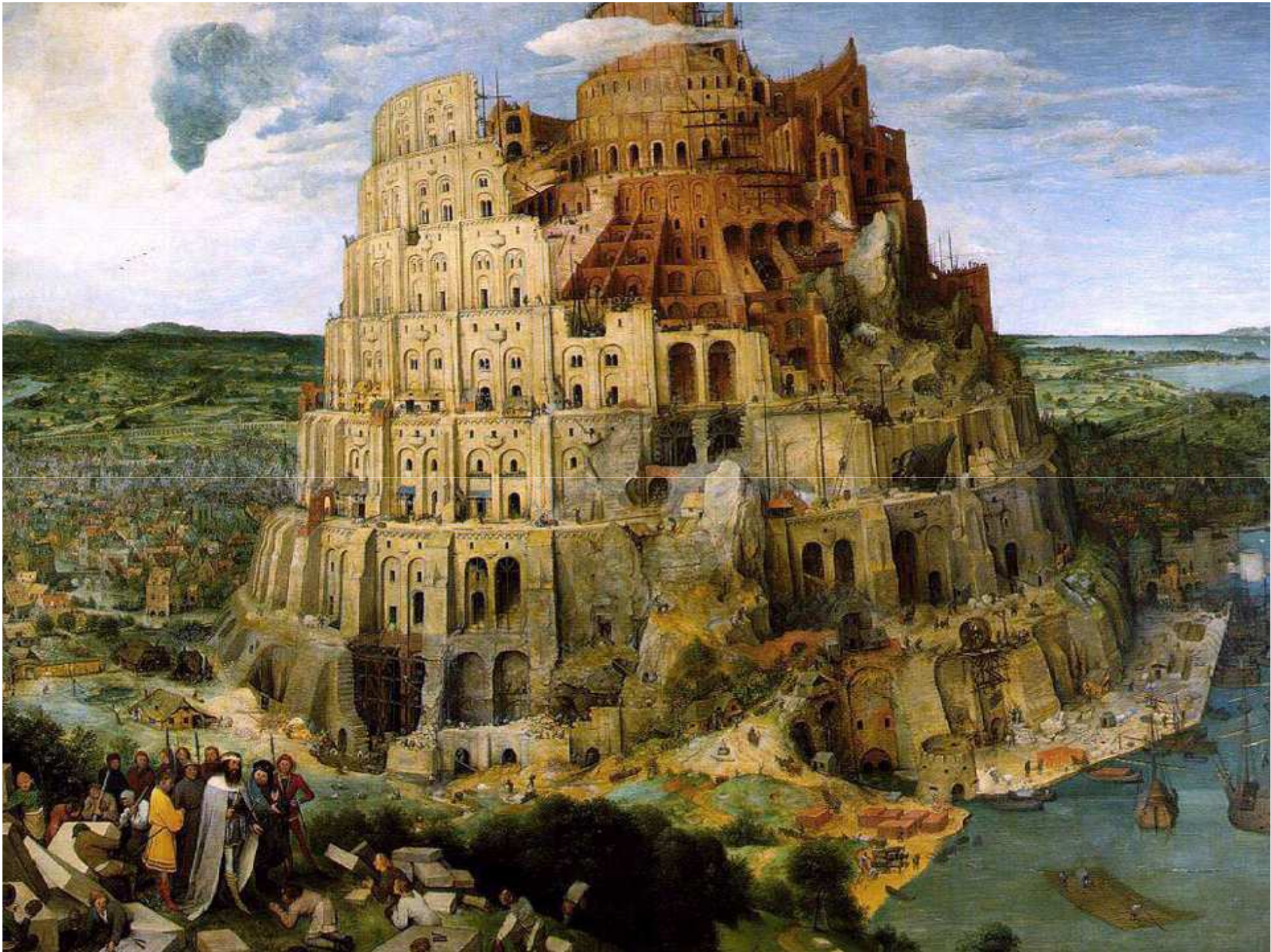
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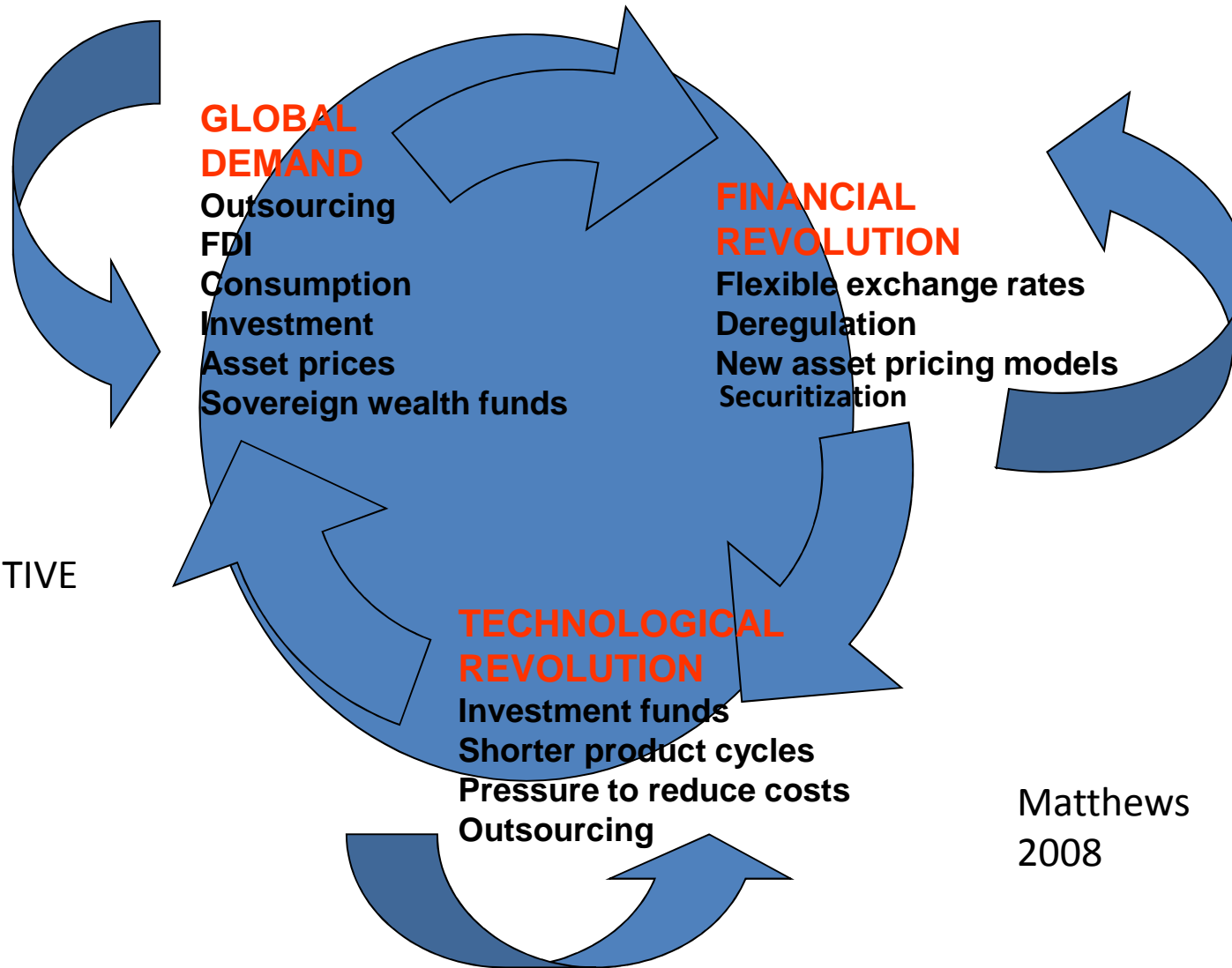
<http://kpp-russia.ru>

note

I will not use many of these slides, but it will help if you can refer to them. I intend to divide the presentation as follows;

- 1. The roots of the Great Recession**
- 2. Contemporary debates**
- 3. Outlook**
- 4. Debt and deleveraging**
- 5. Weak recovery in DM's stronger in EM's**
- 6. The latest from the Eurozone**

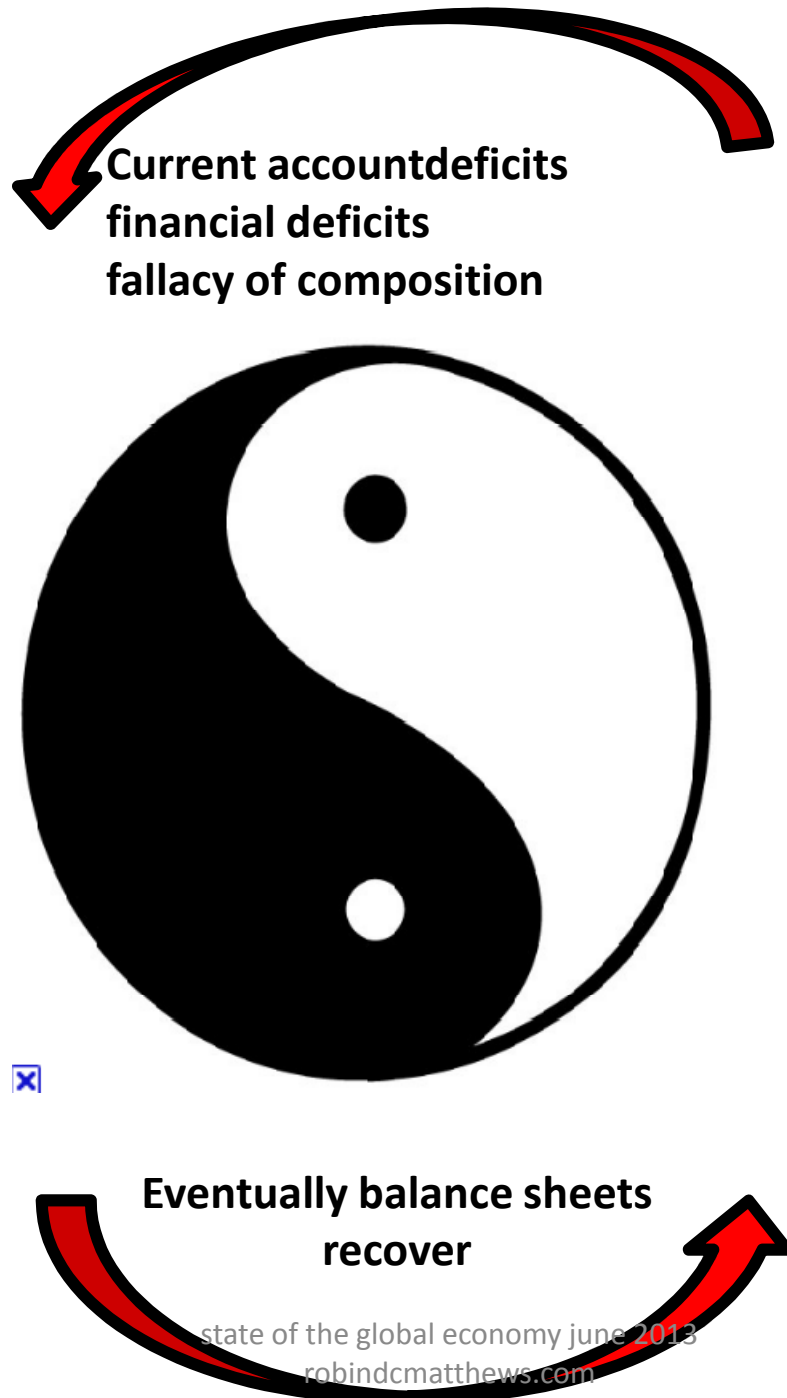




GLOBAL POSITIVE
 FEEDBACKS
 1980 – 2006
 (circa)

Matthews
 2008

Bubble bursts
 Asset prices ↓
 Balance sheet
 Recession
 Deleveraging
 Gov'ts, Firms,
 Households
 Deficient demand
 U ↑ G ↓
 Contagion
 Fiscal policy works
 Risk aversion
 Liquidity trap

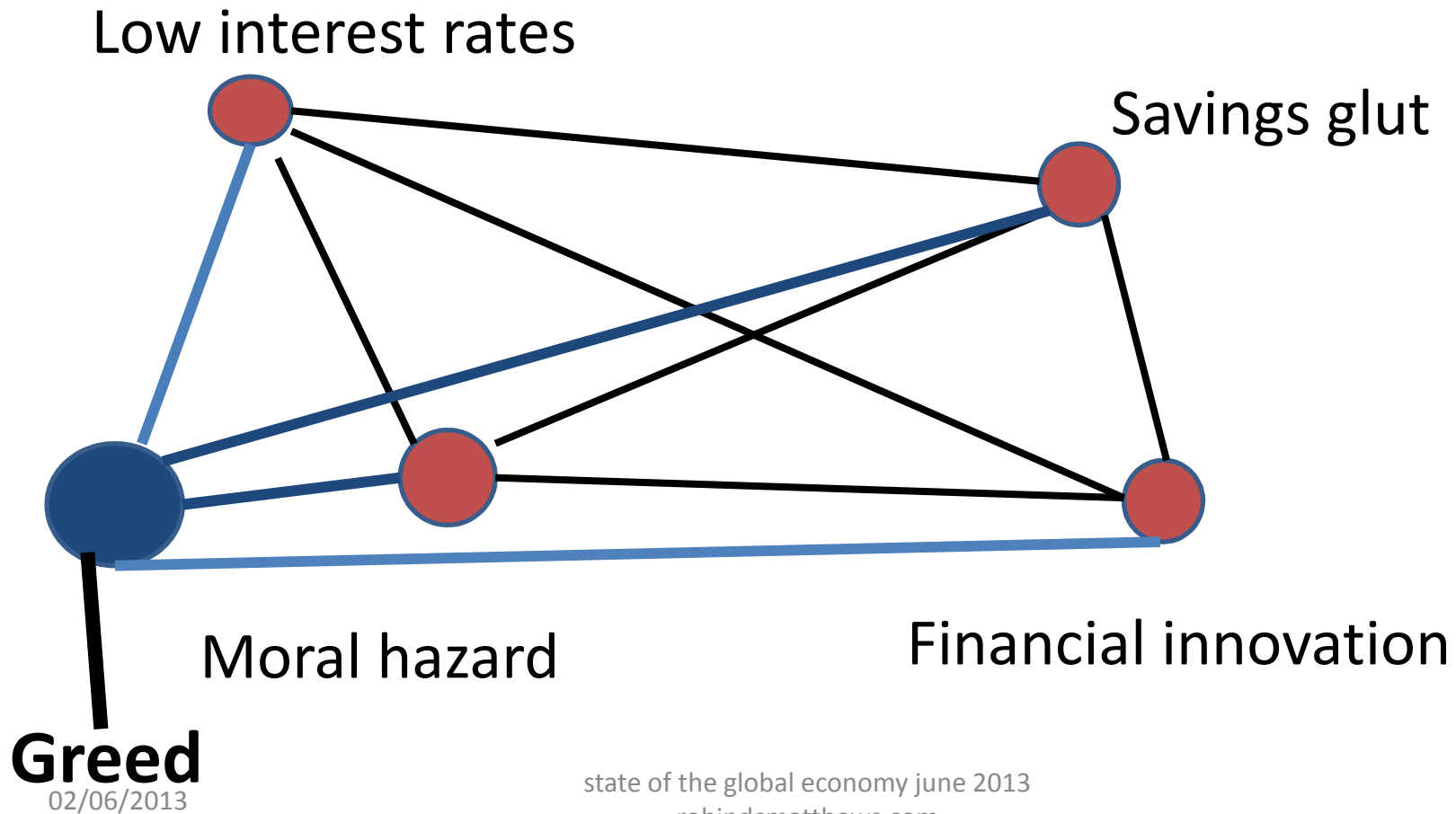


Current account deficits
 financial deficits
 fallacy of composition

Inflated asset prices
 Hubris
 New asset bubble
 Contagion
 Speculation, leveraging,
 securitization
 Monetary policy works
 Excess demand U ↓ G ↑
 Gov'ts, Firms,
 Households
 Increase demand

Eventually balance sheets
 recover

Causes of the crisis?



The Great Recession

Most contemporary economists were wrong

J M KEYNES

The General Theory (deficient demand)



ROBERT LUCAS

Real business Cycle theory



The Great Recession

- **Was it a white swan event (most economists)**

OR

- **Was it a black swan event (Mandelbrot and Taleb and others)**

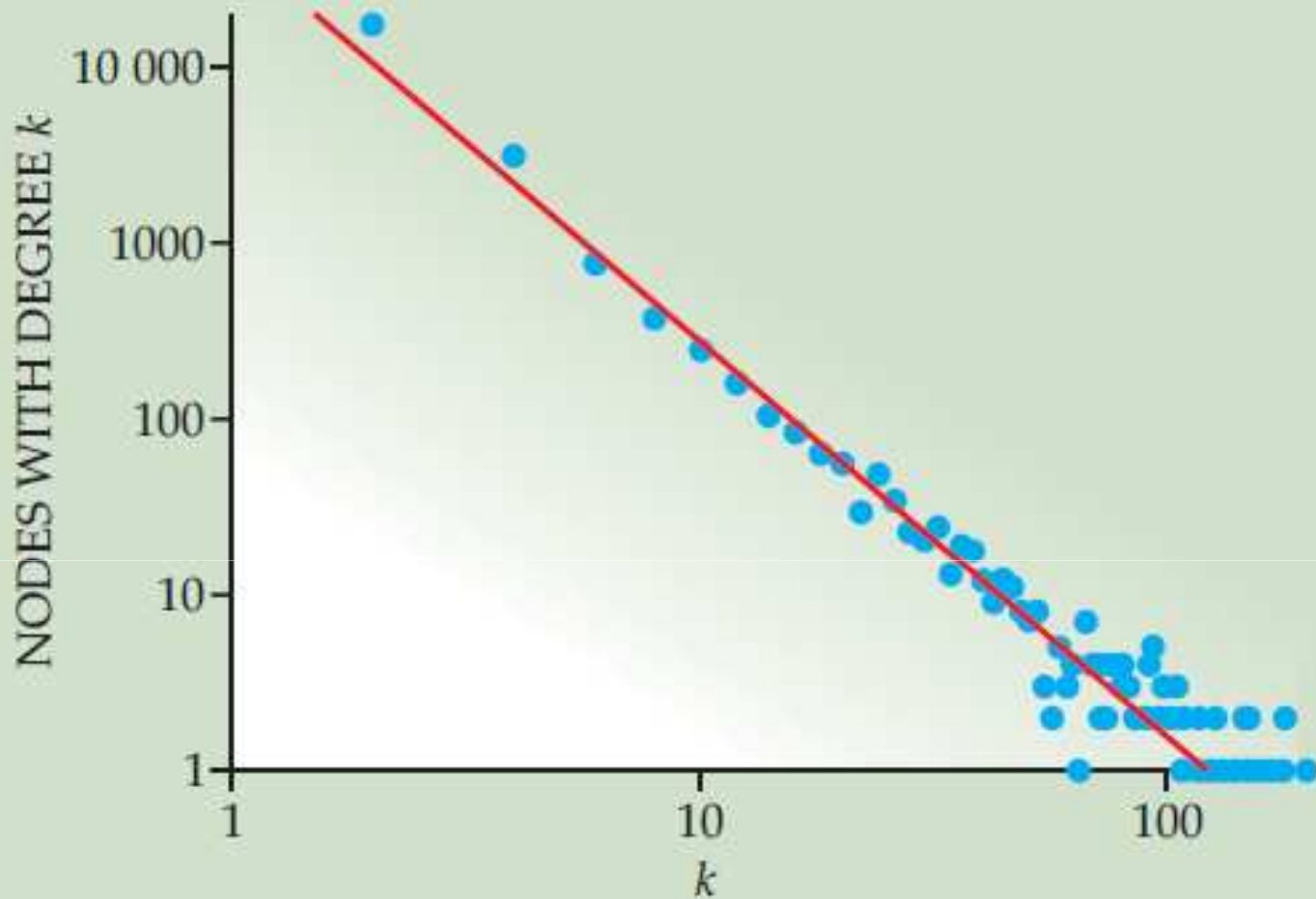


Figure 2. The distribution of the degrees of nodes on the internet. As indicated, the distribution roughly follows a straight line on a logarithmic plot; that is, it obeys a power law.



1. Fractal images

02/06/2015

<http://www.google.com/images/sdsc.edu>

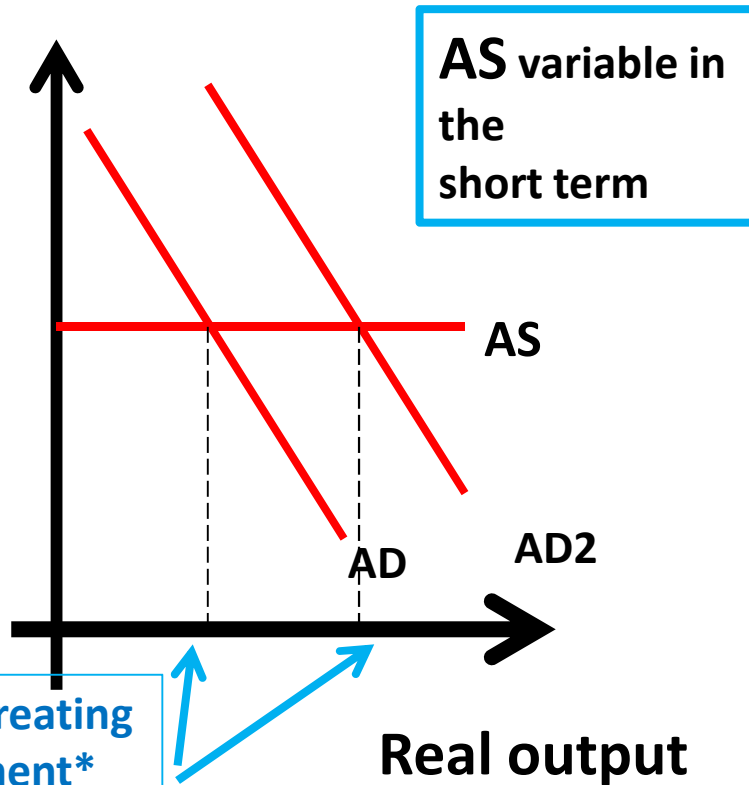
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source

Differences very simplified

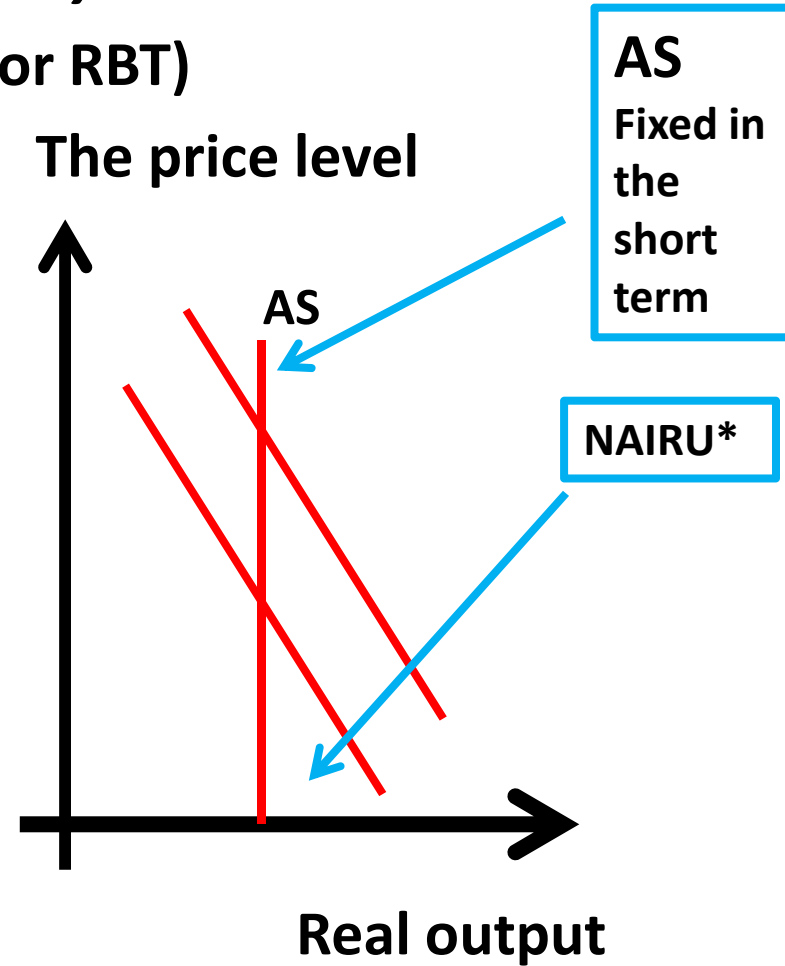
Storybook Keynes

- The price level



Storybook monetarism (or RBT)

- The price level

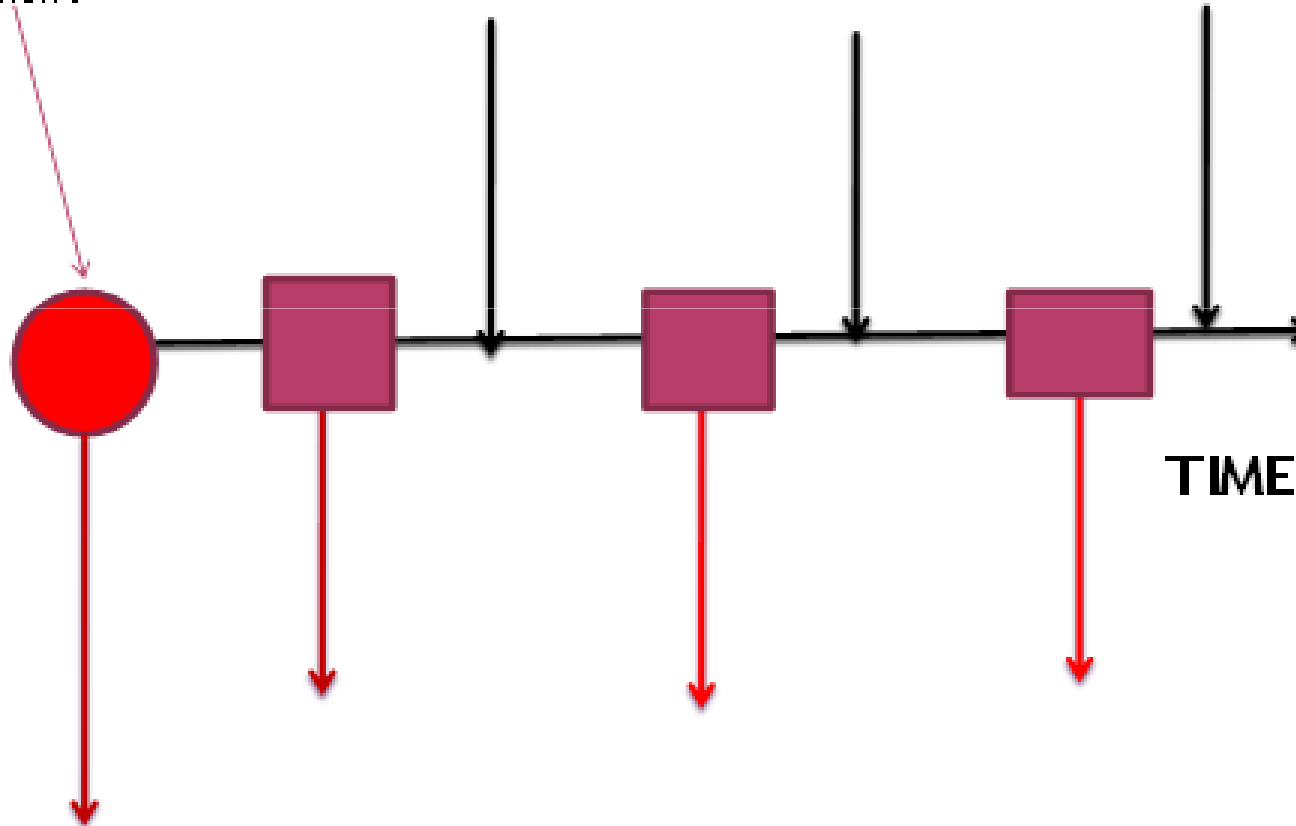




BANKS REFINANCE THE TIME GAP BETWEEN CASH INFLOWS AND OUTFLOWS

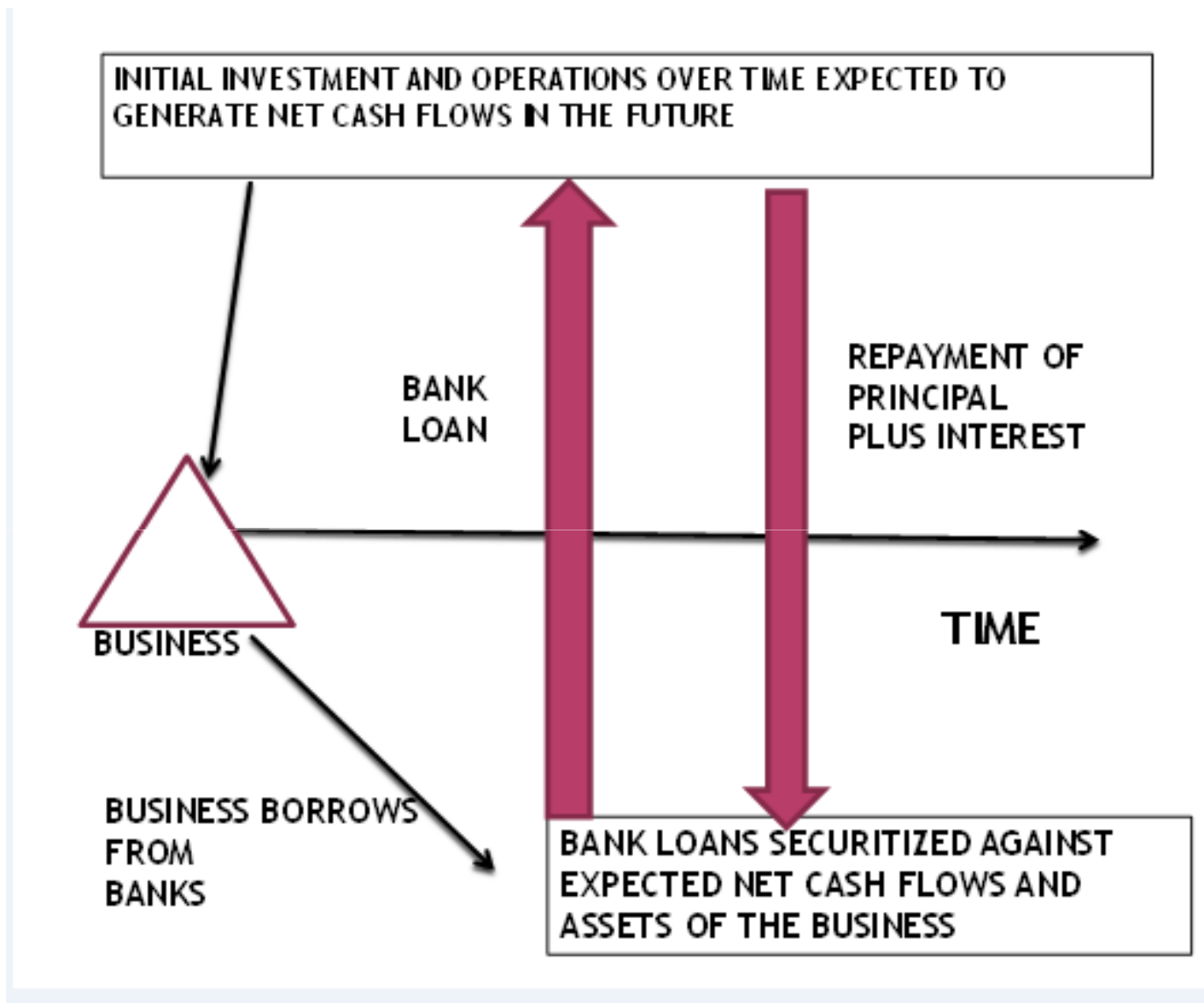
Initial investment

Cash inflows



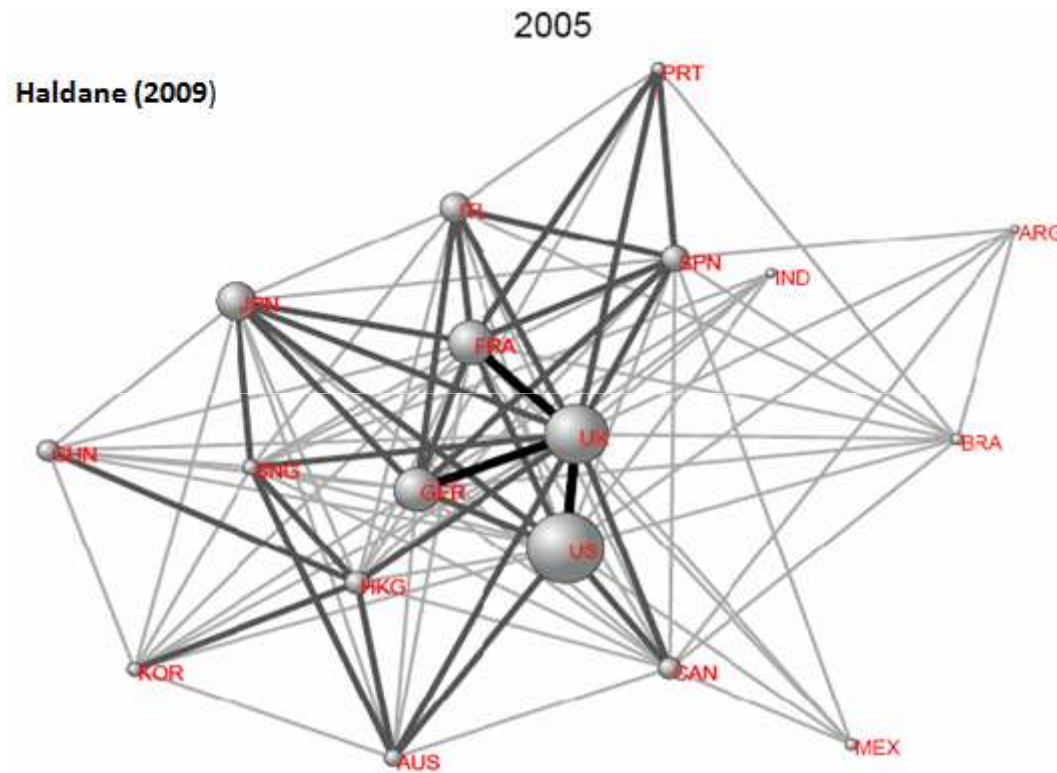
TIME

Cash outflows



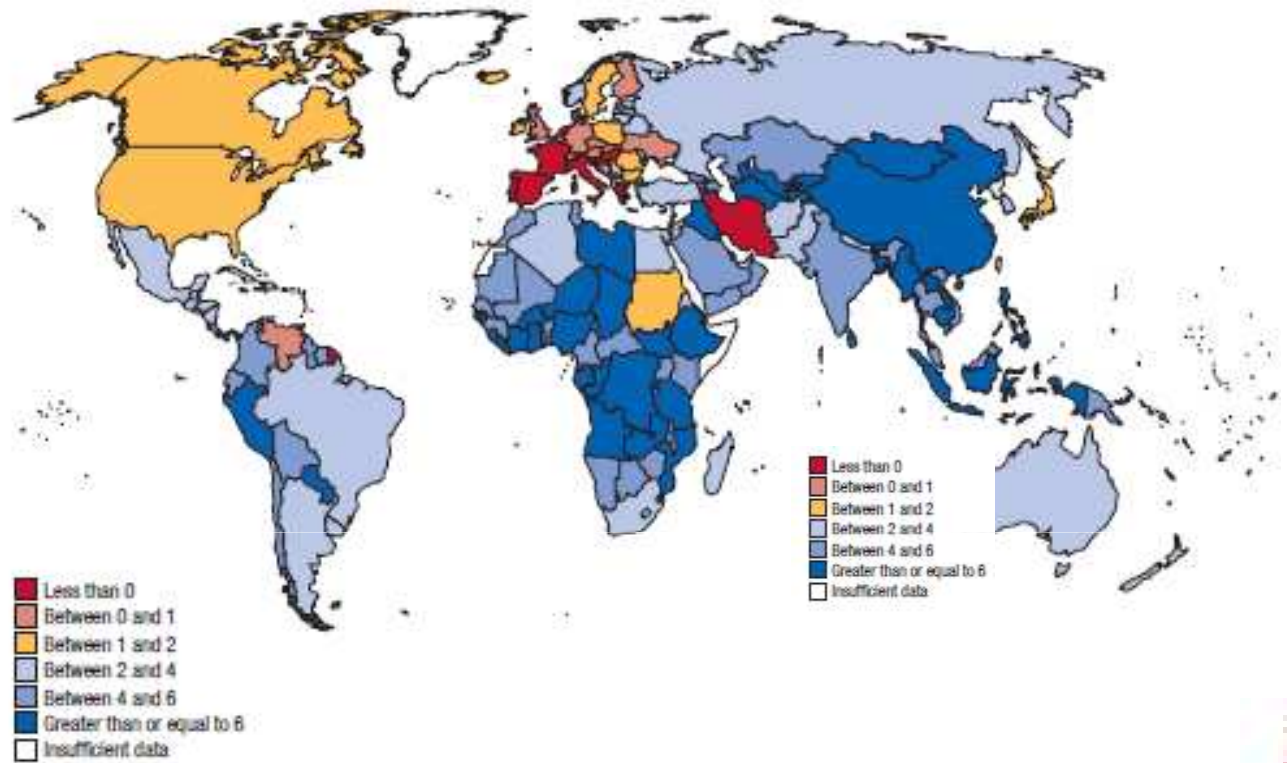
Complex networks the global financial system

From Haldane 2009

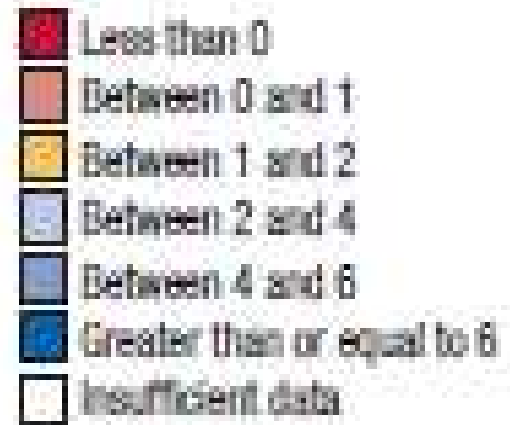


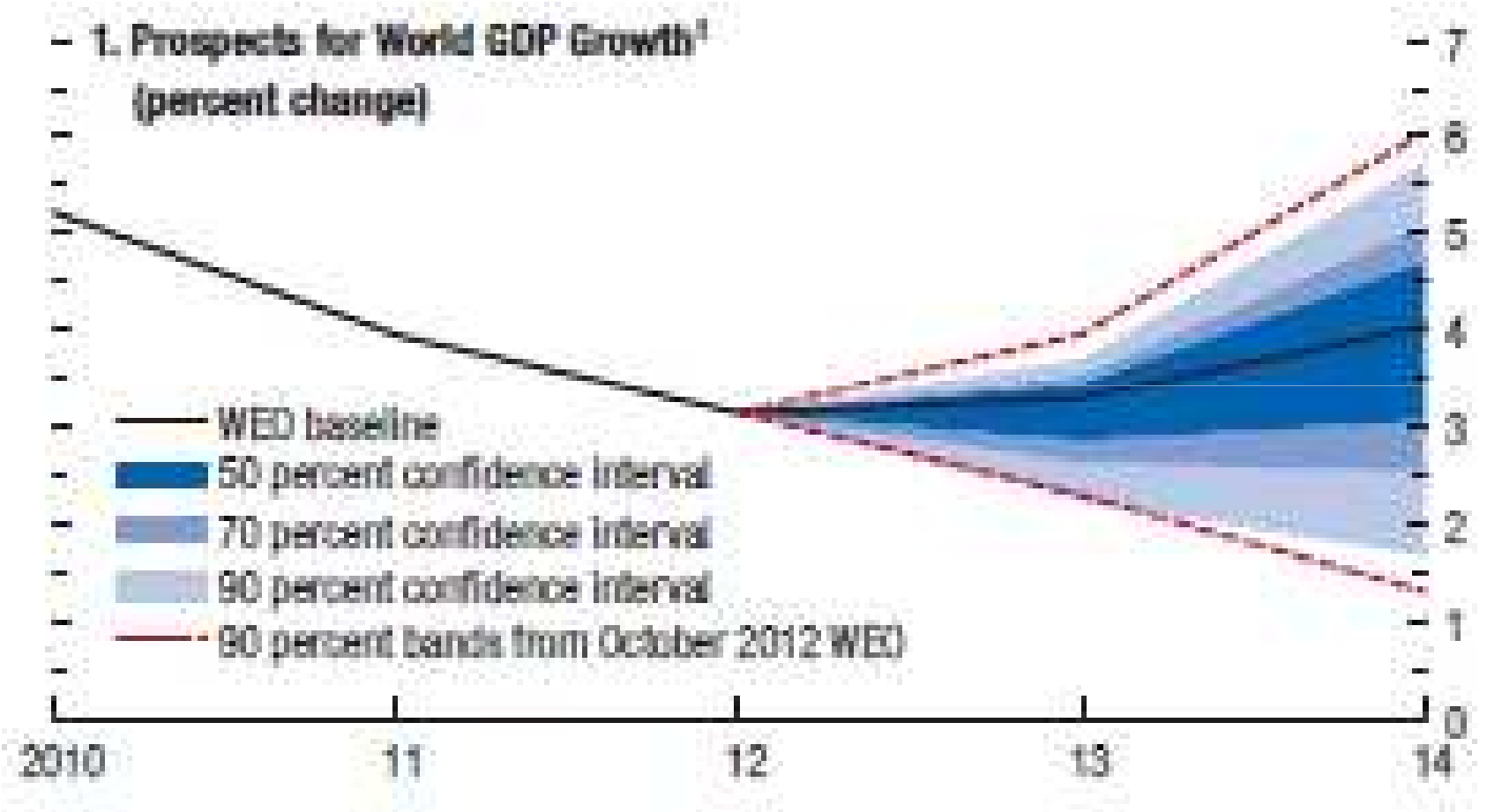
Preferential attachment

Figure 2.1. World: 2013 GDP Growth Forecasts
(Percent)



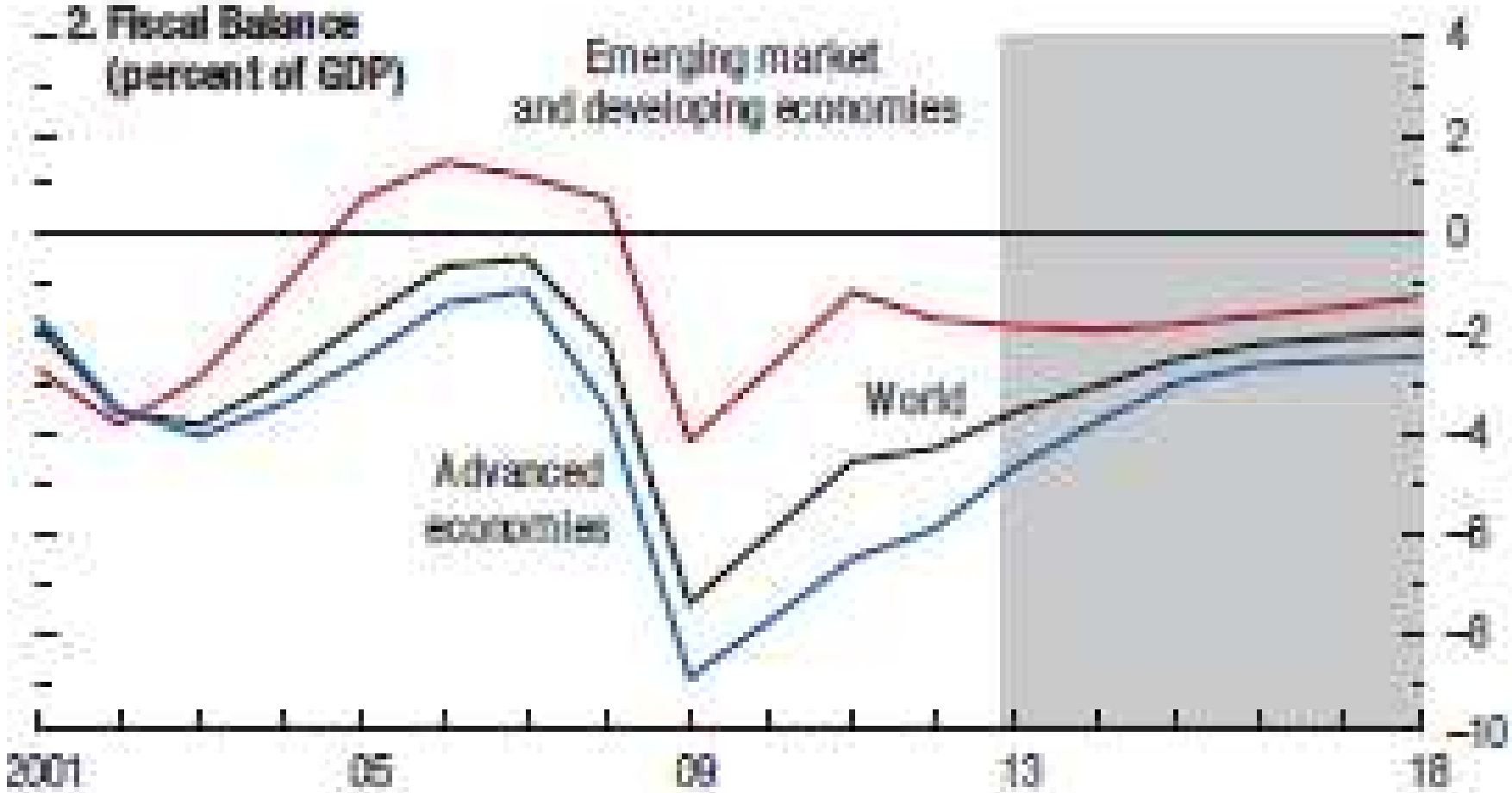
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IMF World Economic Outlook (WEO) April 2013

(WEO) April 2013



Debt overhangs

**What is the ratio of debt to GDP
that triggers negative growth?**

Fiscal deficits

**Do government fiscal deficits
($t - g$) cause private investment to
shrink?**

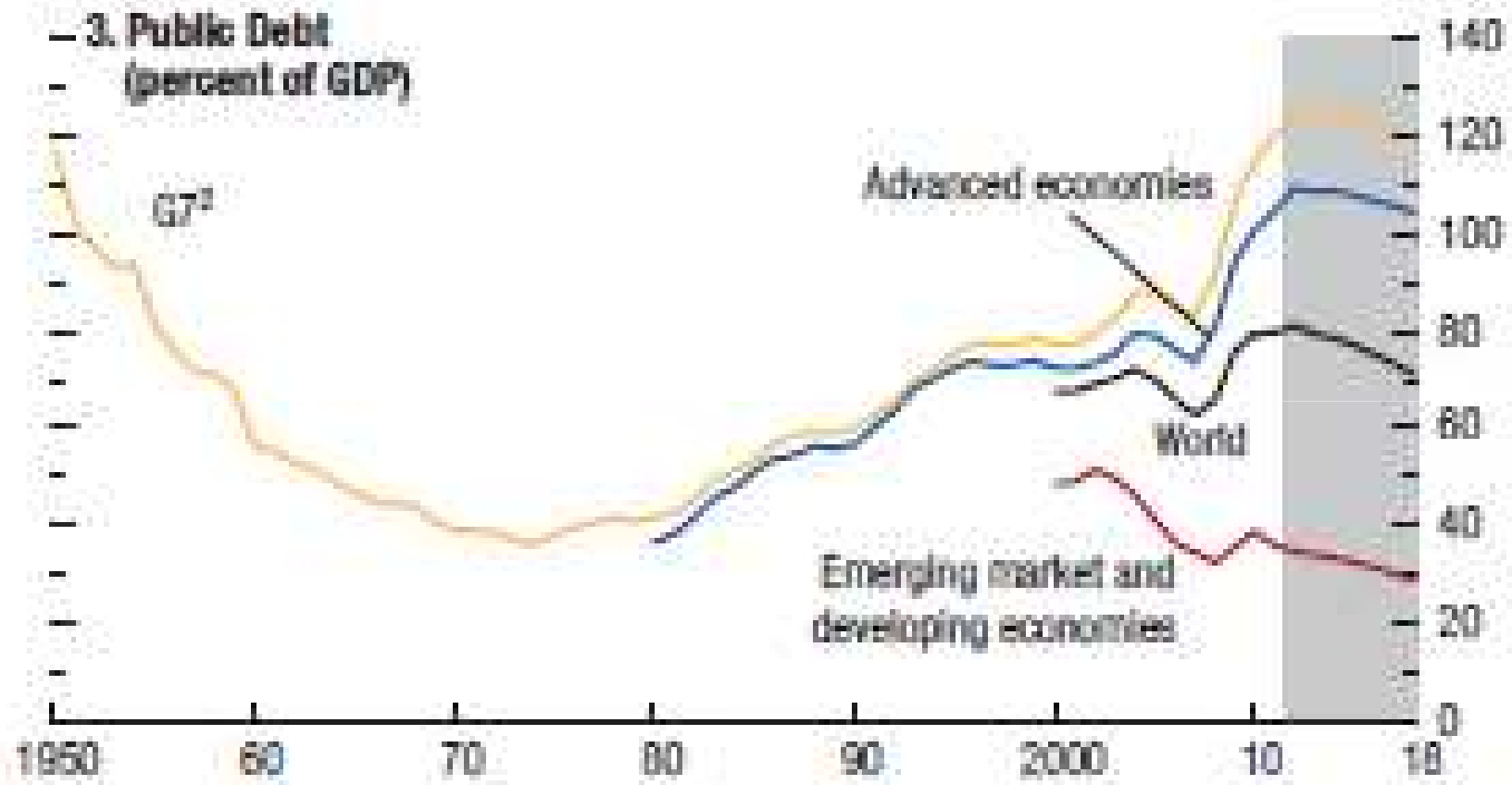
Arguments about government debt

Paul Krugman



Carmen Reinhart





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- Recovery from the Great Recession²
- Average of previous recessions (1975, 1982, 1991)
- Global recession year

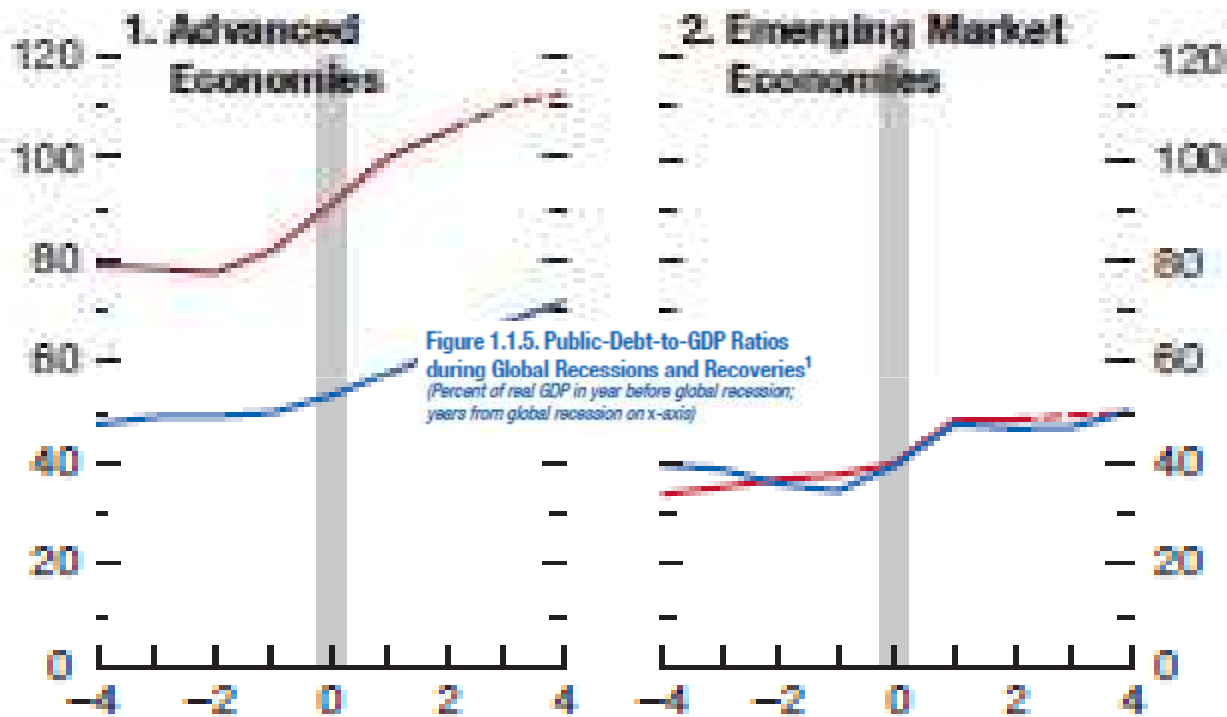


Figure 1.1.5. Public-Debt-to-GDP Ratios during Global Recessions and Recoveries¹
 (Percent of real GDP in year before global recession; years from global recession on x-axis)

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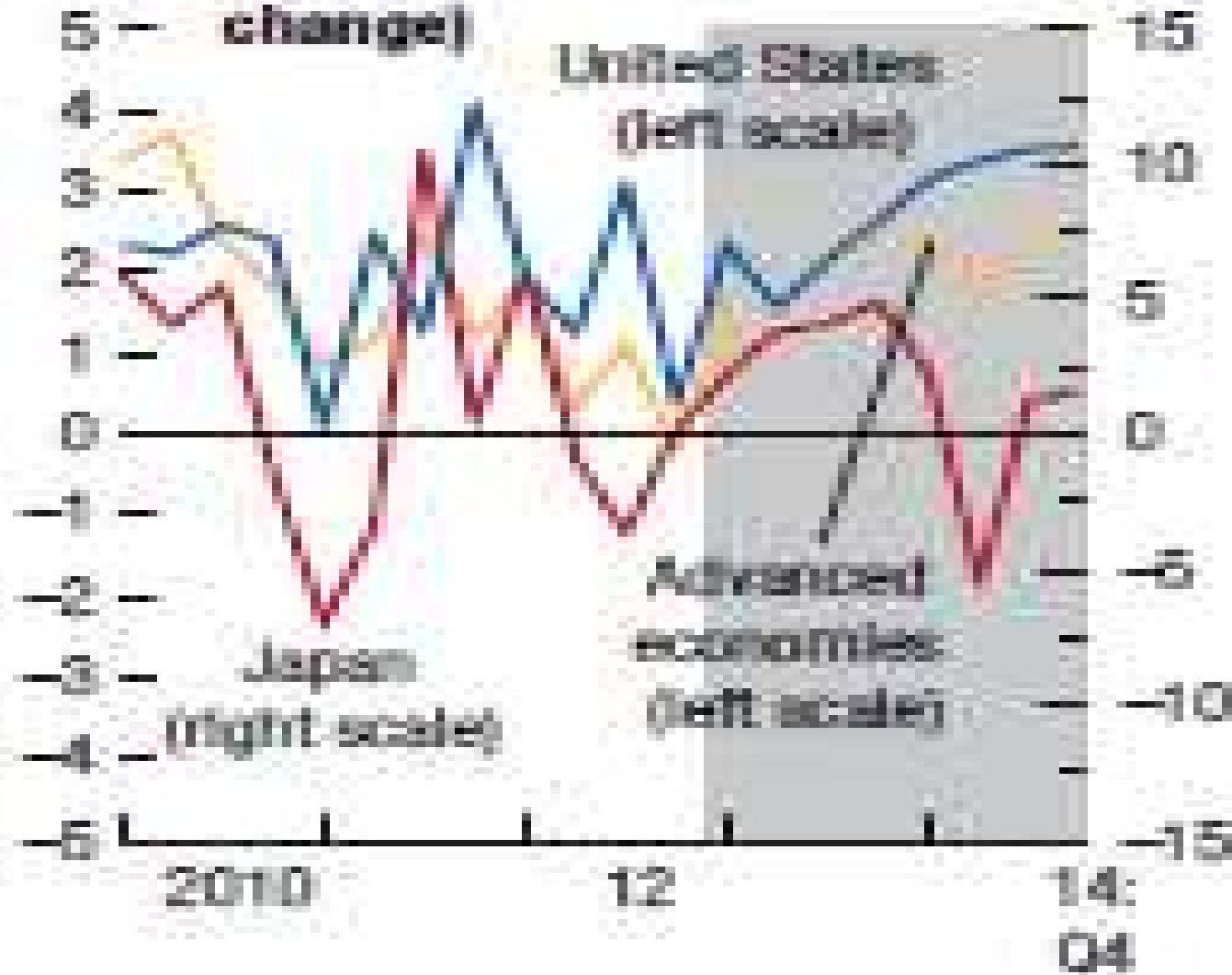
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Comparative growth of GDP

$$\frac{d \text{ GDP}}{d t}$$

1. United States and Japan (annualized quarterly percent change)

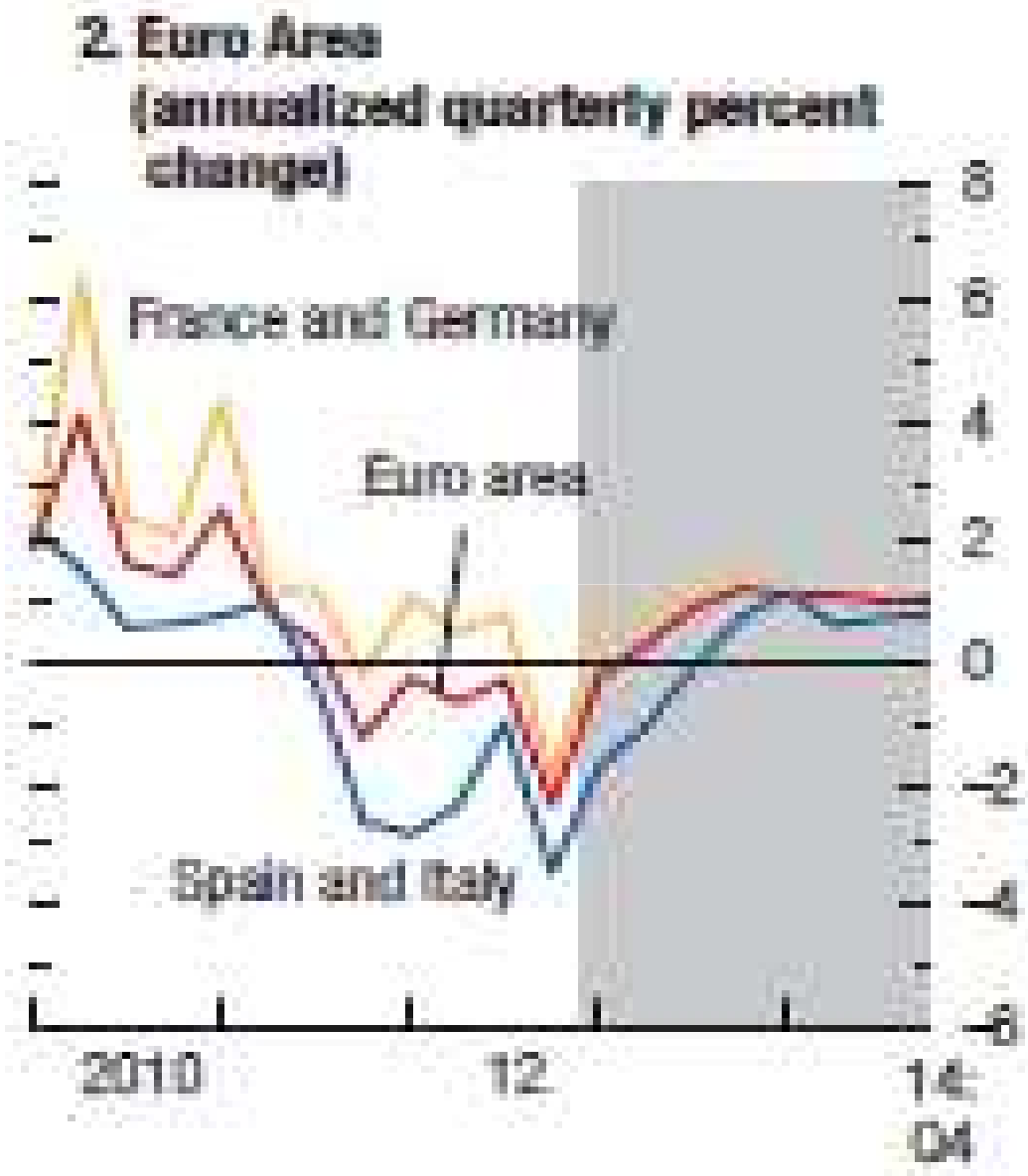


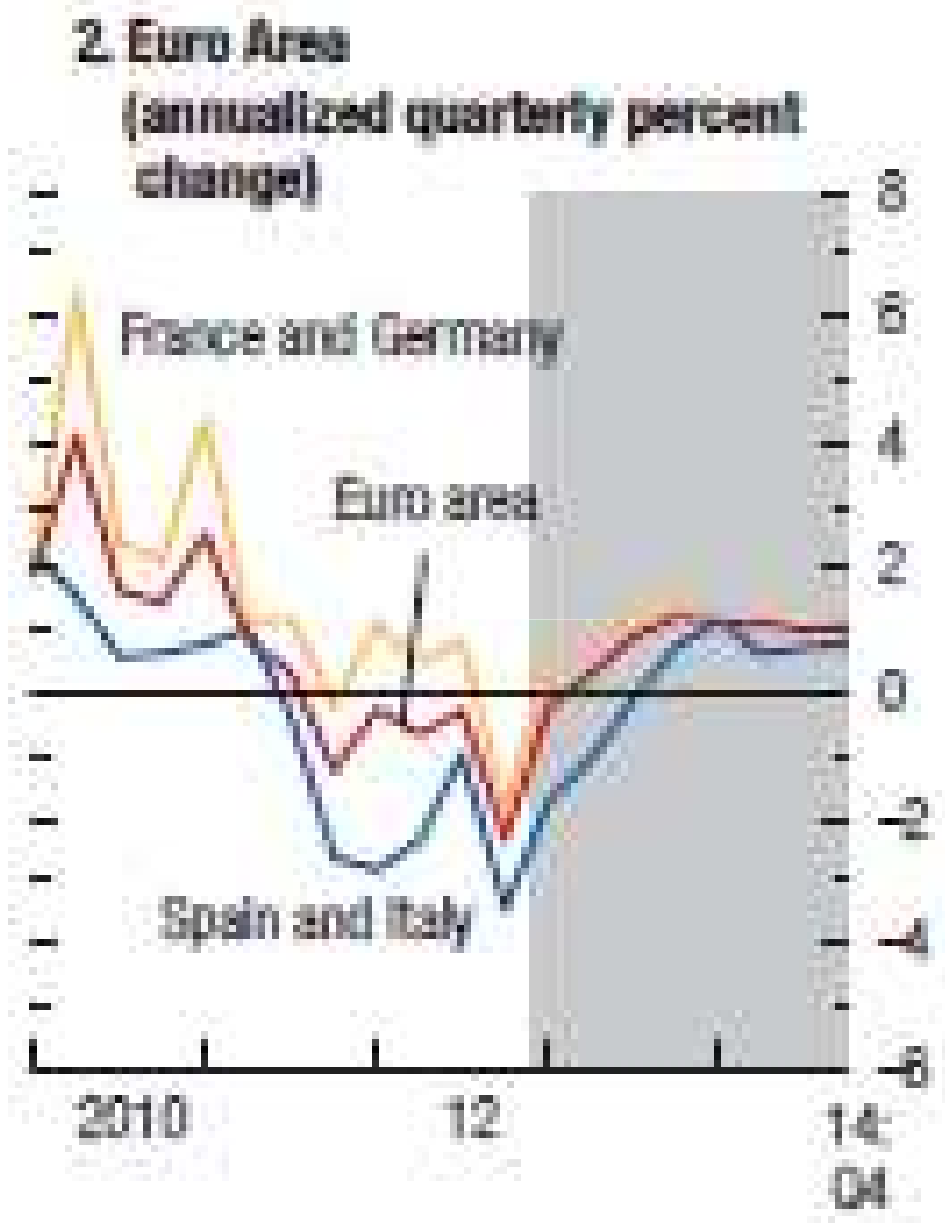
GDP growth

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GDP growth

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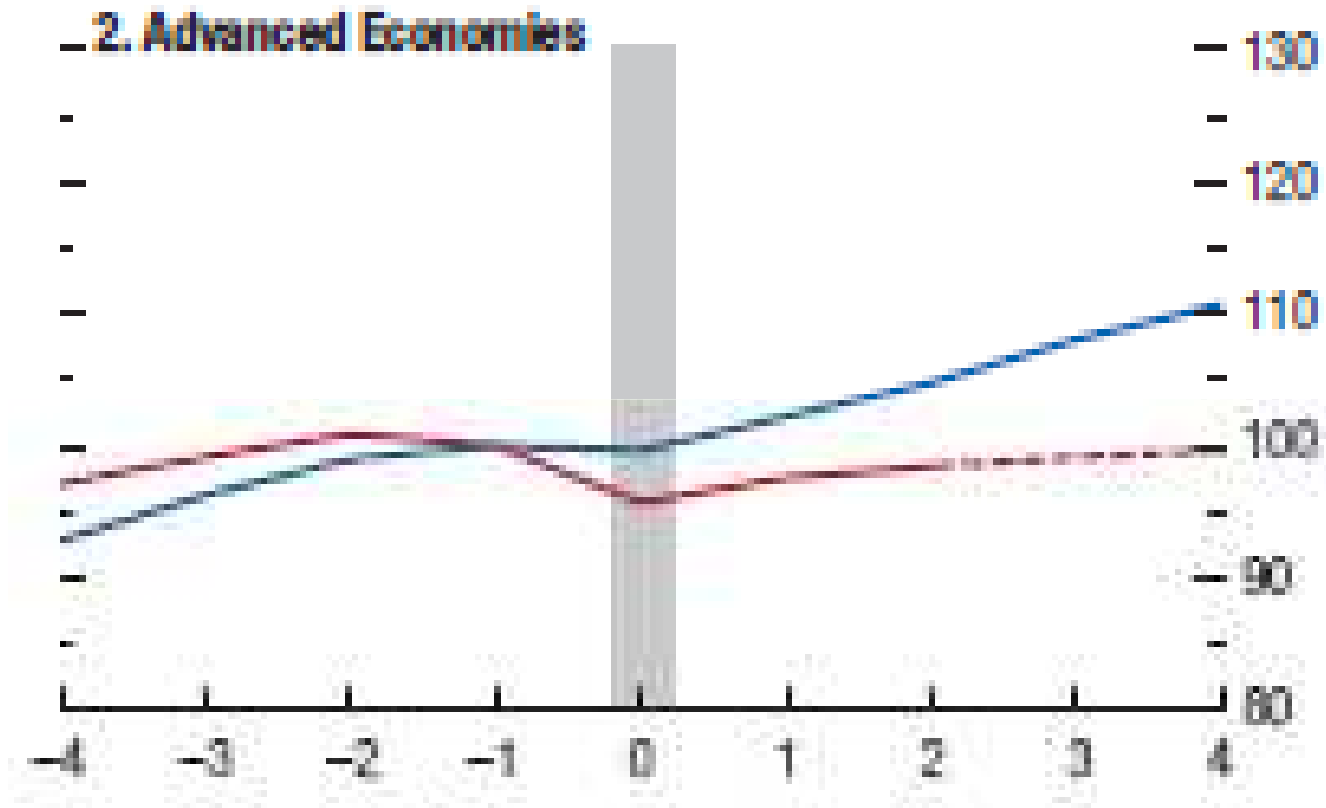
GDP growth

IMF World Economic Outlook (WEO) April 2013

**Comparative recovery from
recession
Average of '72, '82, 91
compared to Great Recession**

Great Recession —

Previous recoveries —
Average '72, '82, '91

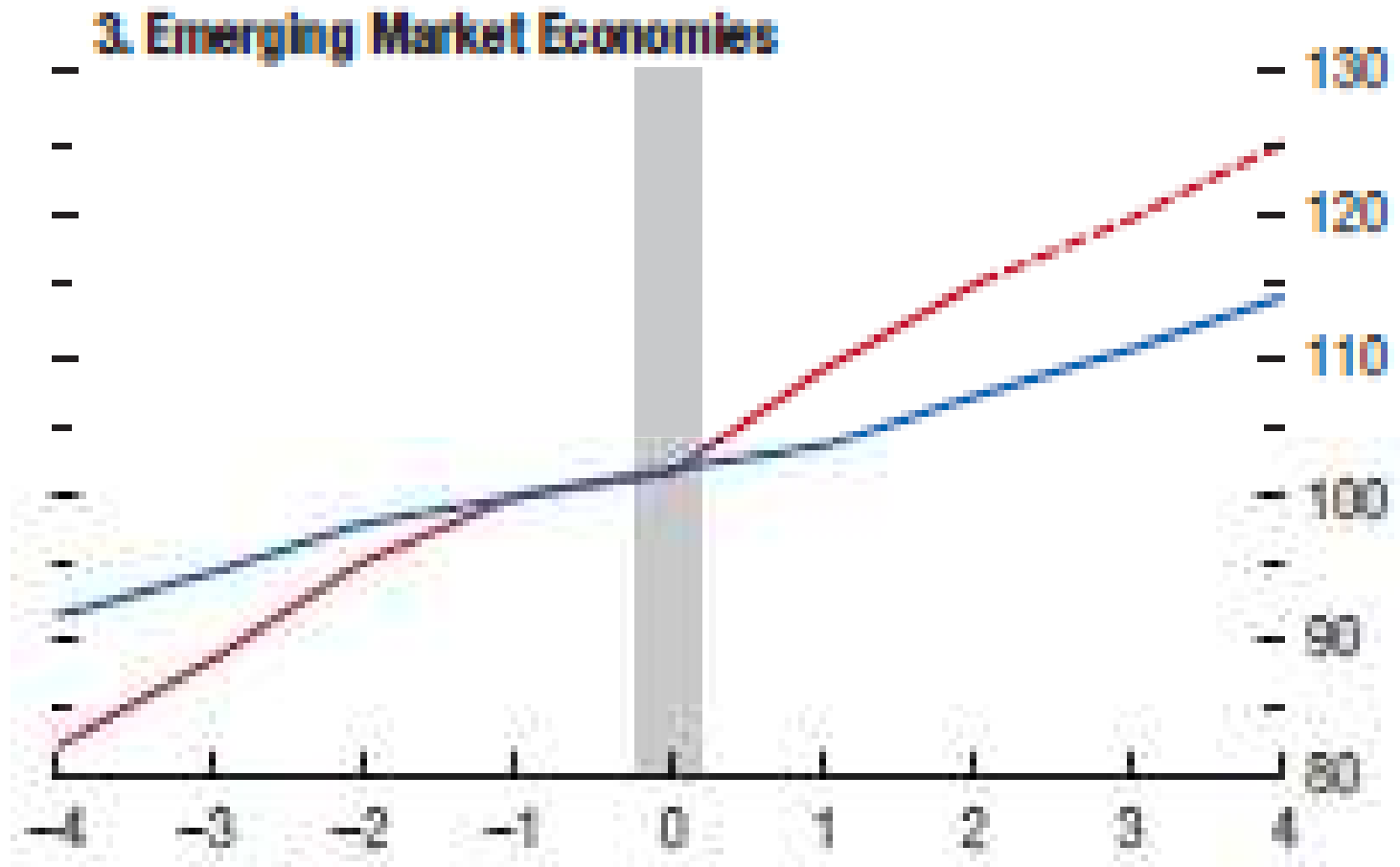


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Great Recession



Previous recoveries
Average '72, '82, '91



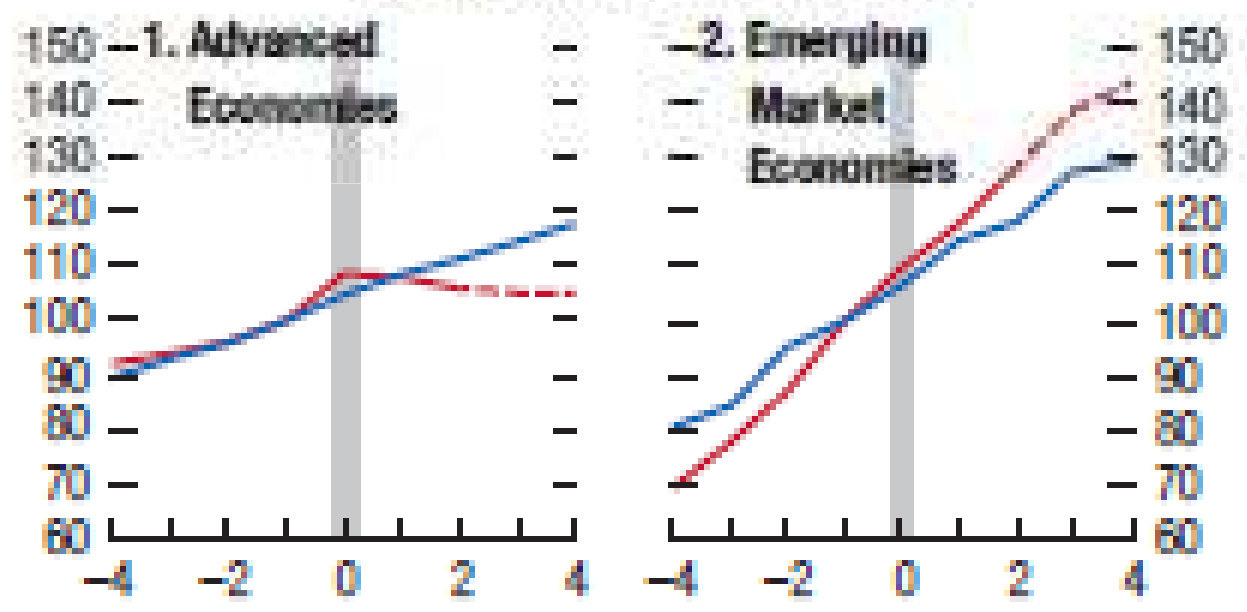
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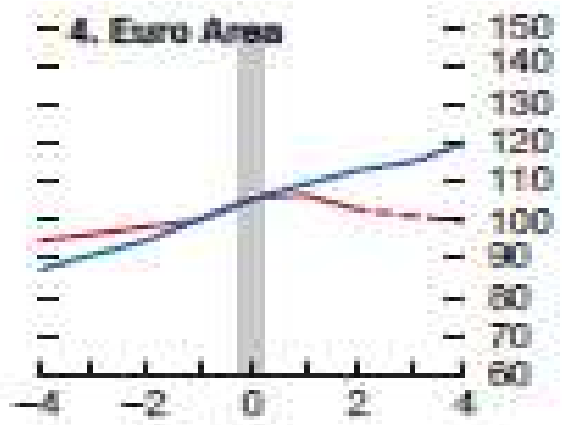
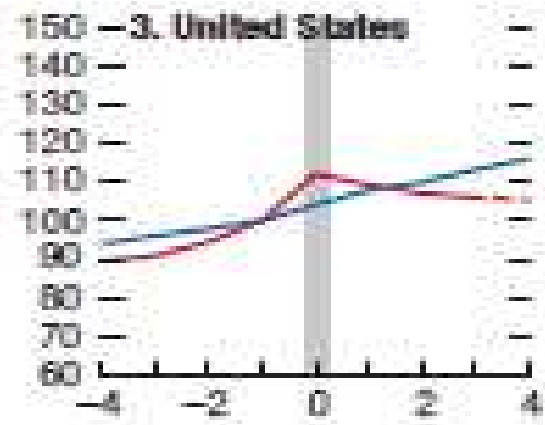
Government expenditures during recessions

**Average of '72, '82, '91
compared to Great Recession**

- Recovery from the Great Recession²
- Average of previous recessions (1975, 1982, 1991)
- Global recession year

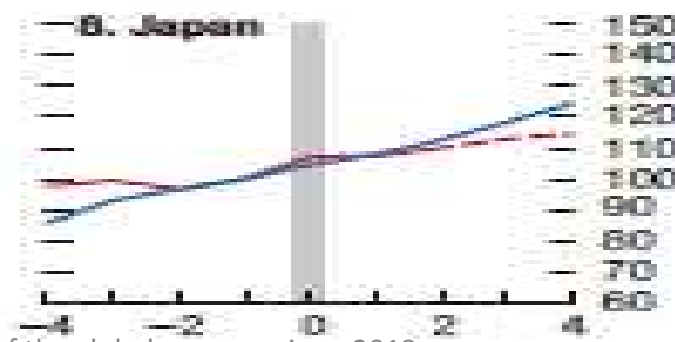
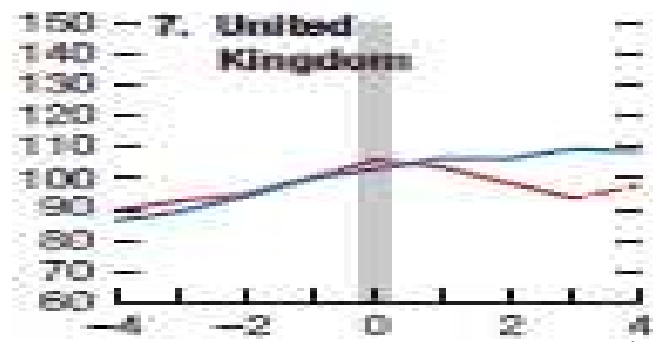
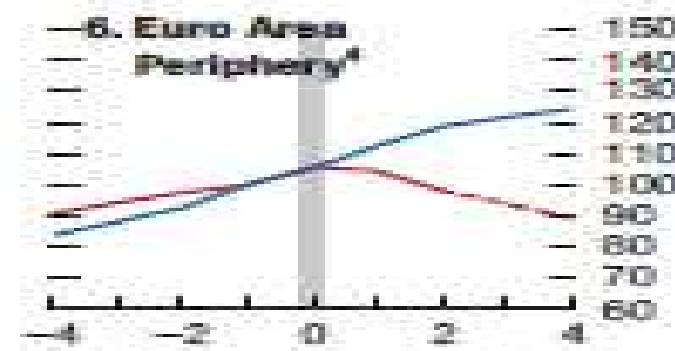
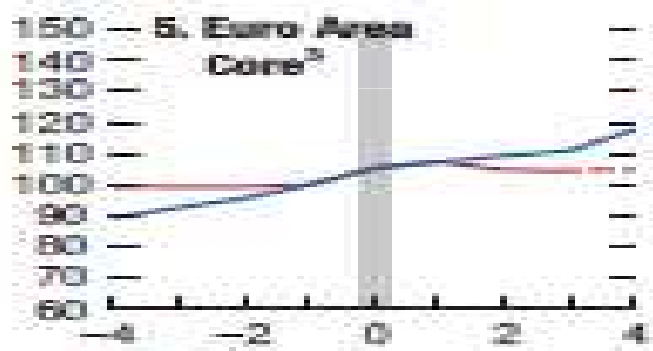
Real Primary Expenditure





— Recovery from the Great Recession²
— Average of previous recessions (1975, 1982, 1991)
 Global recession year

Real Primary Expenditure



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April 2013**

- Recovery from the Great Recession²
- Average of previous recessions (1975, 1982, 1991)
- Global recession year

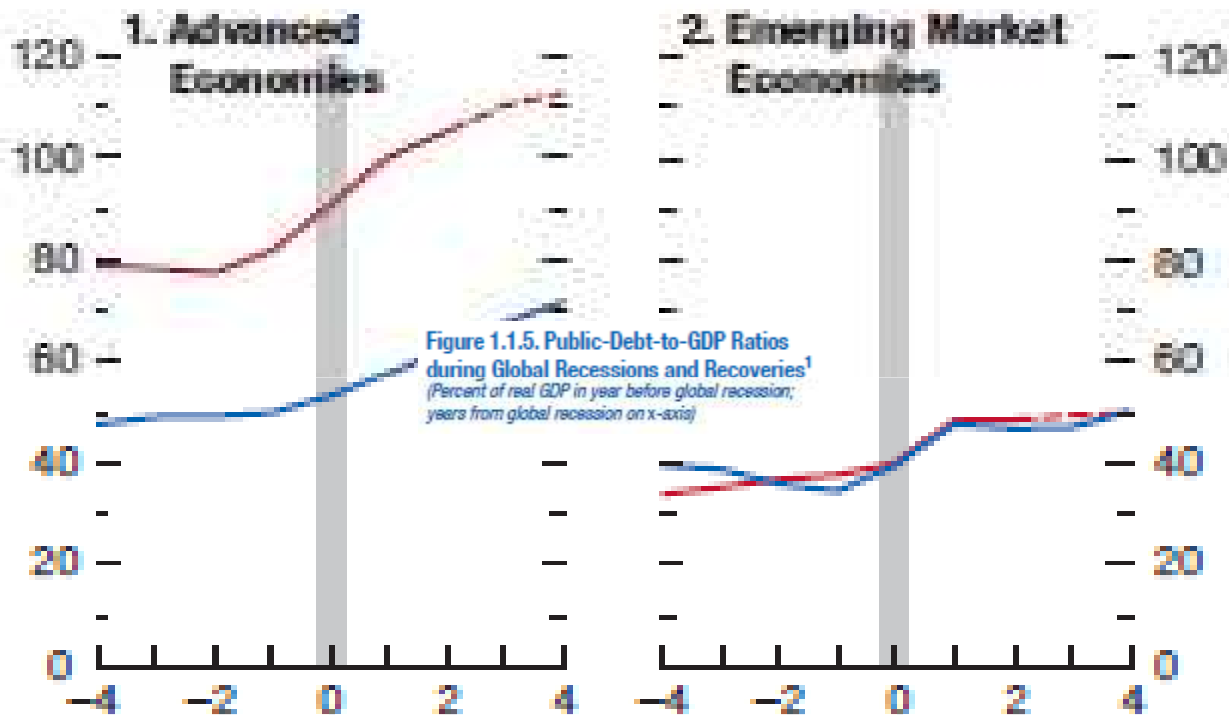


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 (Percent of real GDP in year before global recession; years from global recession on x-axis)

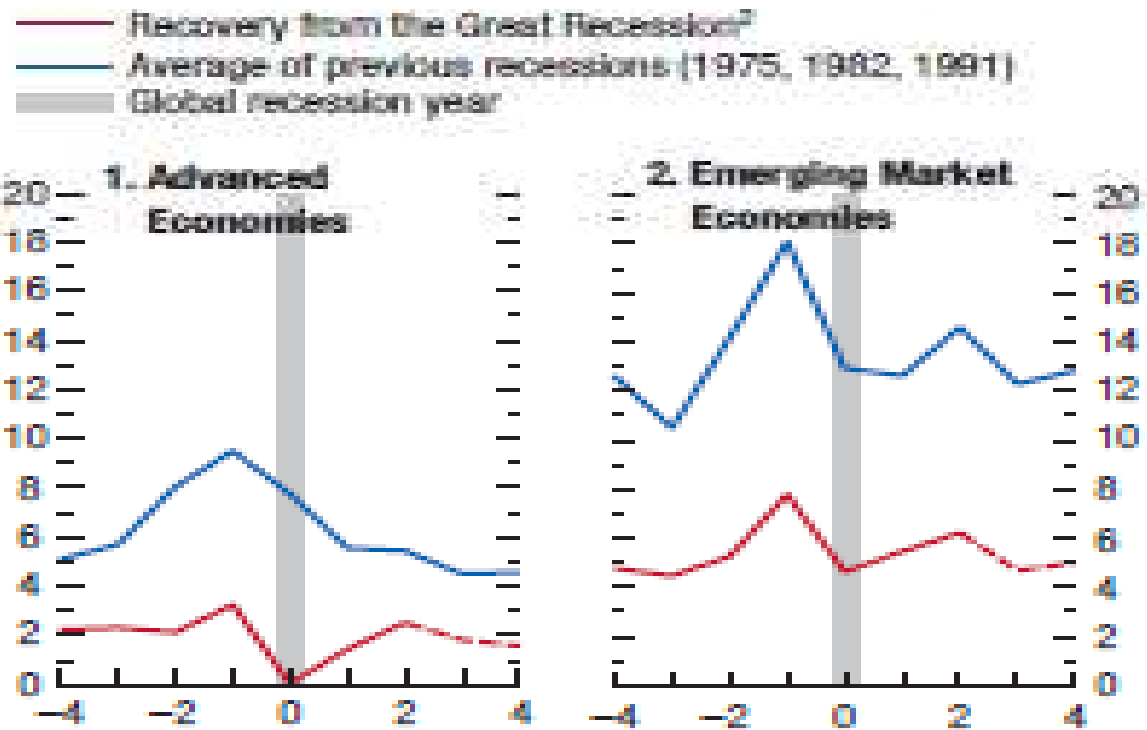
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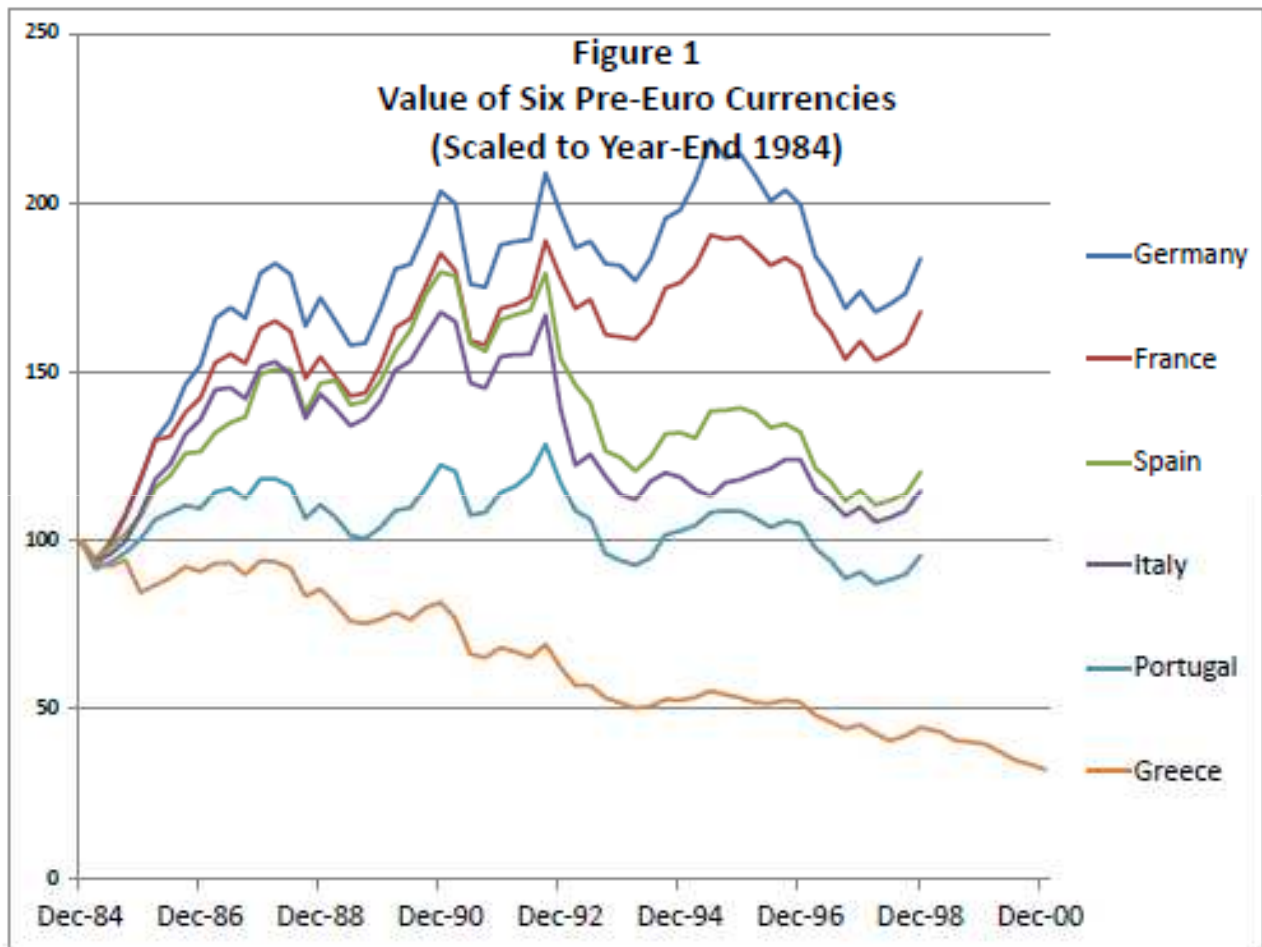
Inflation and deflation in the Great Recession

**Figure 1.1.6. Inflation during Global
Recessions and Recoveries¹**
(Percent, years from global recession on x-axis)

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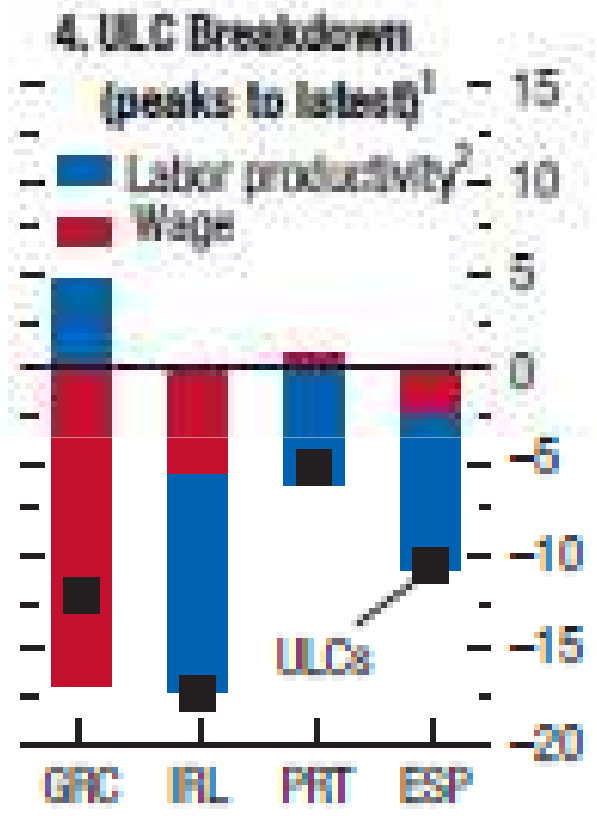
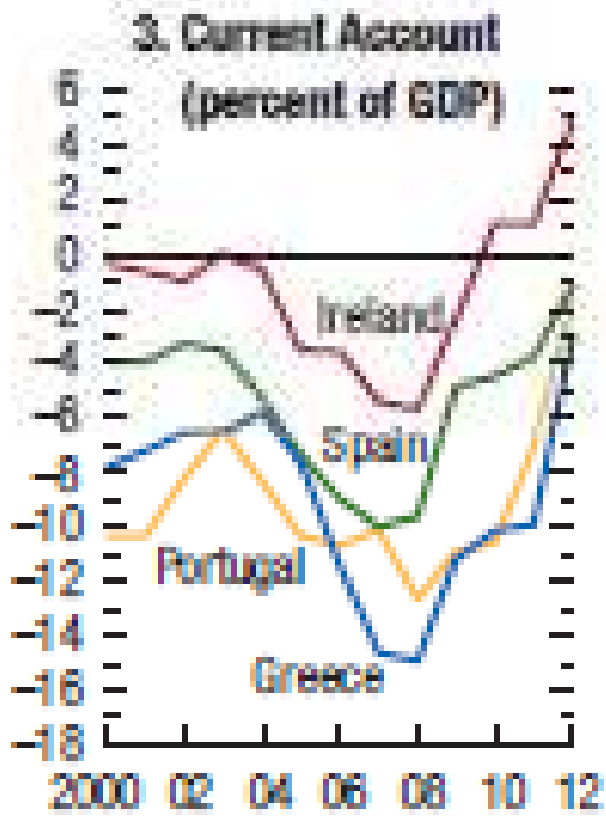
The Eurozone



Source: IMF International Financial Statistics

From : Can the Euro be saved by David Beim 2011

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