Discussion of Claessens, Kose, and Terrones, “What Happens During Recessions, Crunches, and Busts?”

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- Highlight some important features of the CKT paper
- Emphasize the problem of heterogeneity
- Suggest a slightly different perspective by defining another selection criterion
- Offer some more general comments

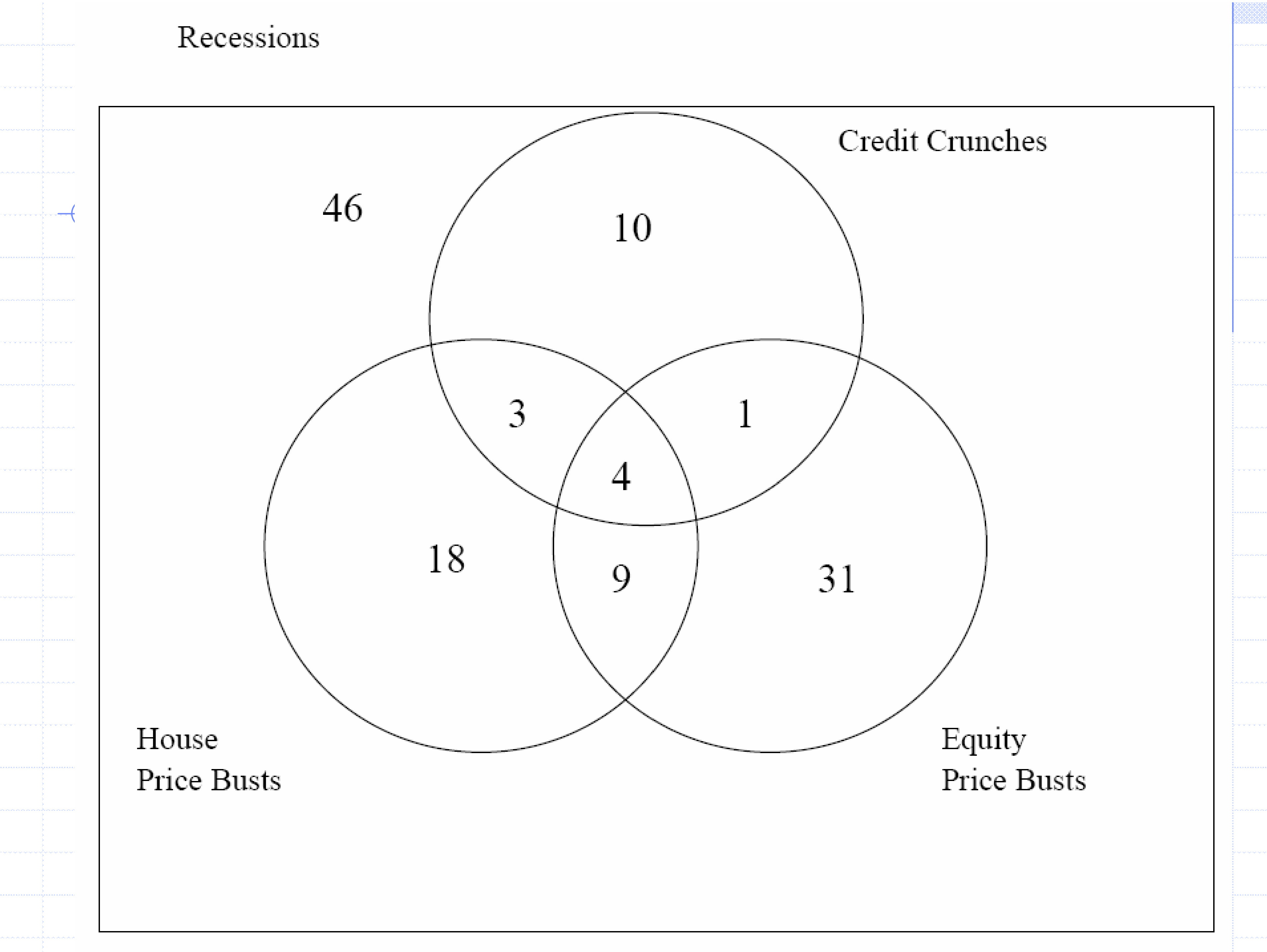
The CKT paper offers a perspective of economic cycles

- Over time
  - 1960 to 2007
- Across countries
  - 21 OECD economies
- From a variety of economic concepts
  - Activity and asset values
- Decidedly in the spirit of Burns and Mitchell
  - As opposed to Frisch and Tinbergen

Some impressive numbers for an empirical macroeconomic study

- 122 recessions
- 112 crunches
- 114 house price declines
- 234 equity price declines

Paging Professor Venn . . .


Recessions
Credit Crunches
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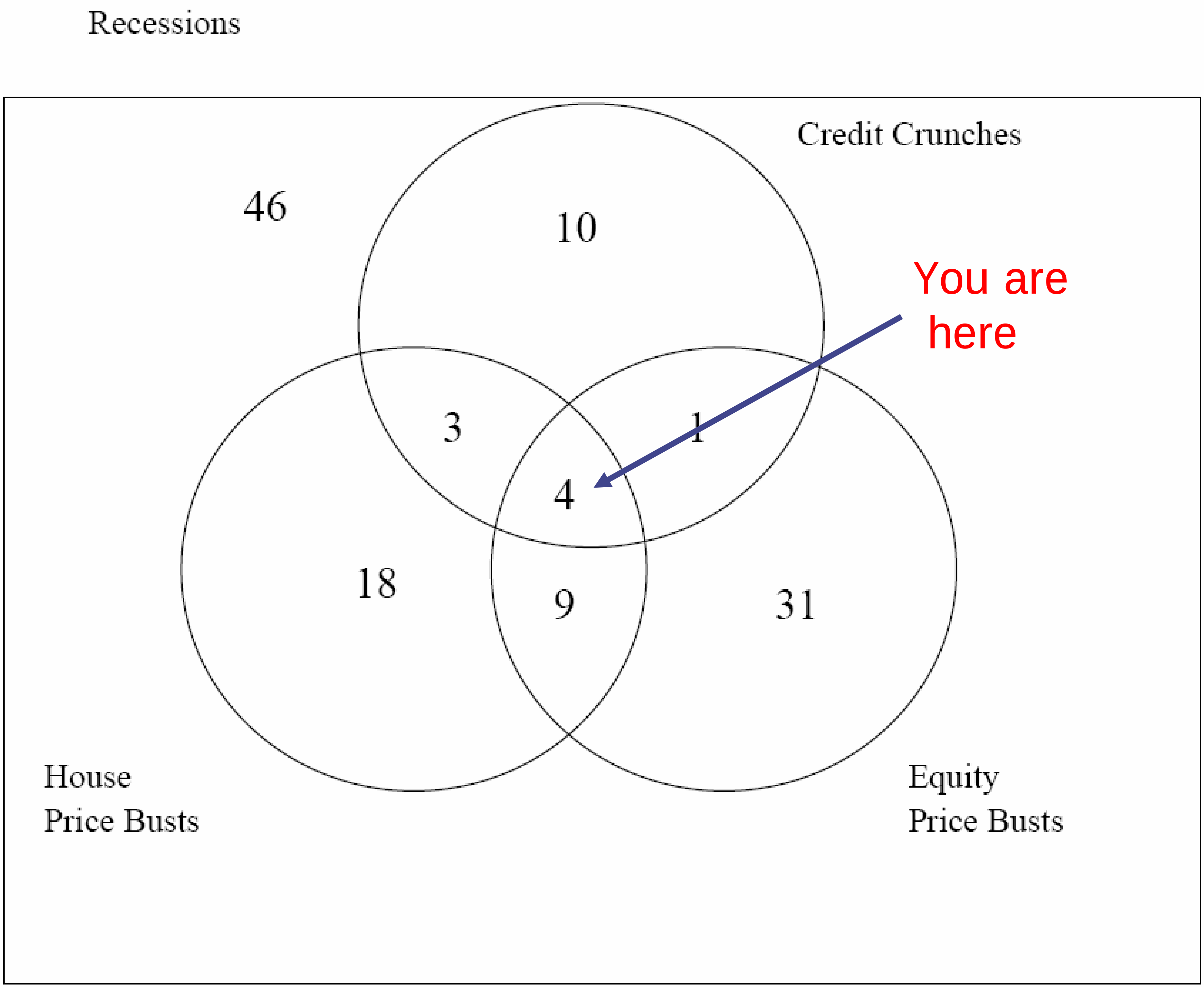
House
Price Busts
Equity
Price Busts


Recessions
Credit Crunches
46
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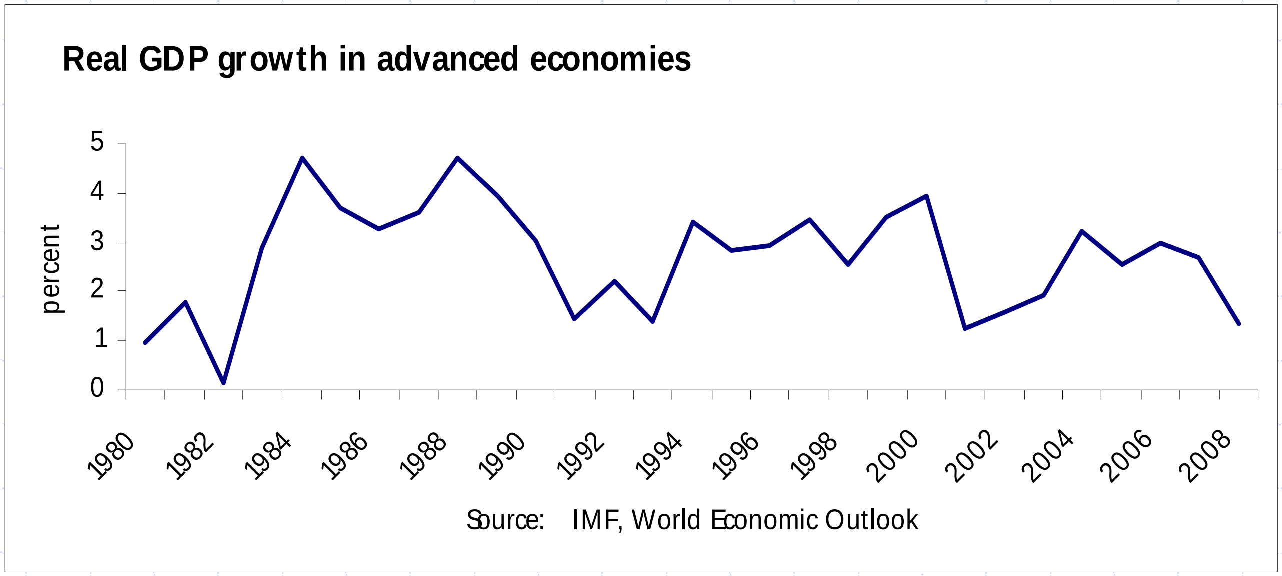
House Price Busts
Equity Price Busts

This raises the obvious questions

- How many separate events are there really?
  - Across markets
  - Across countries
- Should we learn from arbitrarily defined events or also from the non-events?
- What is the role for historical precedent during the Great Moderation?



... and the obvious problems

- Events are heterogeneous
- Outcomes depend on policy
  - And policy has responded differently
- Defining a window opens the possibility that there is an offset outside the window
- Decision on perspective influences the interpretation

One example is Reinhart and Reinhart, “Capital Flow Bonanzas”

Frames of reference in the literature

		Balance-of-payments account	
Change:		***Current account***	***Capital account***
	Improvement	Current account reversal	Capital inflow problem
	Deterioration	Twin deficits	Sudden stop

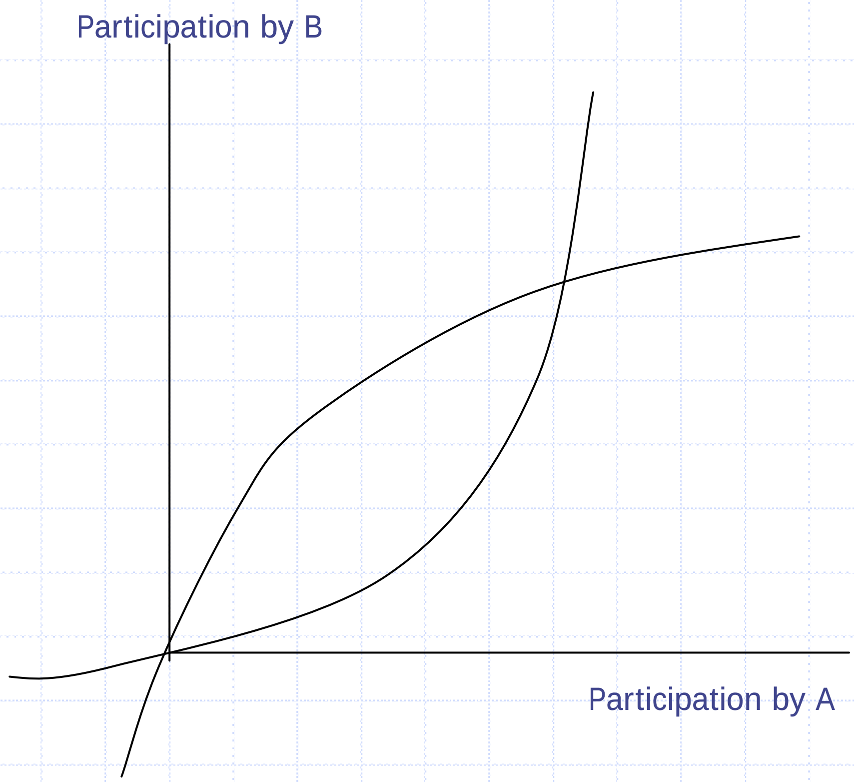
The fundamental insight about the current outlook from CKT is:

- We are in the center part of the Venn diagram.
  - That is, we are living through "The Great Intersection"
  - Where everything that can go wrong is

The ongoing issue is how credit markets absorb or magnify a real economic loss.

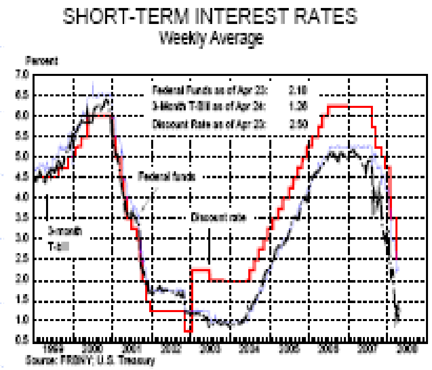
- Markets with an important role for expectations can produce
  - Herding
  - Self-fulfilling prophesies
  - Multiple equilibriums

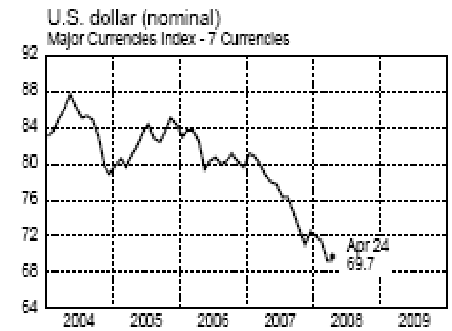
- The market outcome is very sensitive to
  - Shifts in expectations
  - Changes in costs



In the high-trade outcome

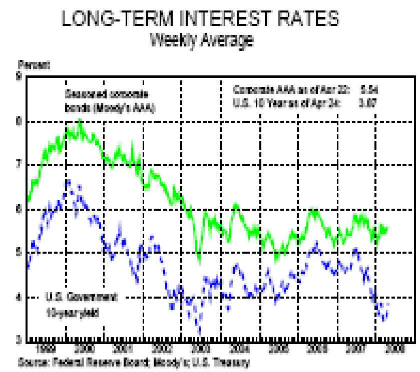
- The LCFIs at the center of the global financial trading system get more capital
- Financial market conditions improve
  - Allowing the substantial easing of monetary policy to show through
- This requires the U.S. government to jump start market functioning
  - Which is an indirect attempt to improve balance sheets

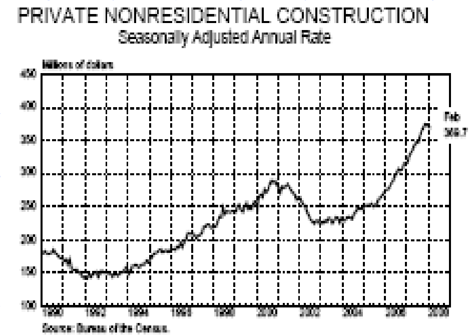


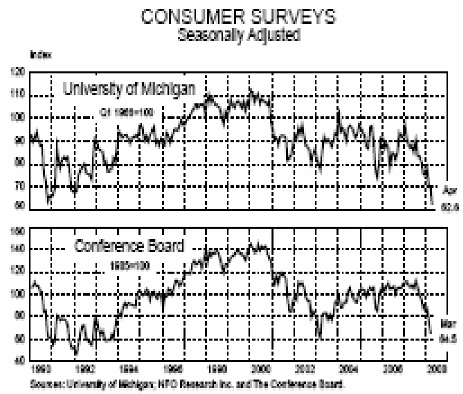


In the low-trade outcome

- Official actions do not get traction in raising asset prices and improving balance sheets
- Financial conditions do not improve
- The economy moves sideways or weakens







CKT . . .

- Have identified what happens in different states

- The next obvious issue is about transitions and duration dependence

  - How long does an economy stay in a particular state?

  - What moves an economy from one state to another?