

Lecture 15

The Coronavirus recession

Summary:

- Why was the new recession anticipated?
(although the ignition, Covid19, could not be predicted)
- Why do some economists never understand the danger of recessions?
- The financial crash of 2020
- The economic and social impact of the ongoing crisis

Why were some economists afraid of a next recession? Now we have it.



The greater risks:

Shadow finance
Desregulation and finance
Banking concentration

Lack of tools (given zero rate of interest + wage and demand contraction)

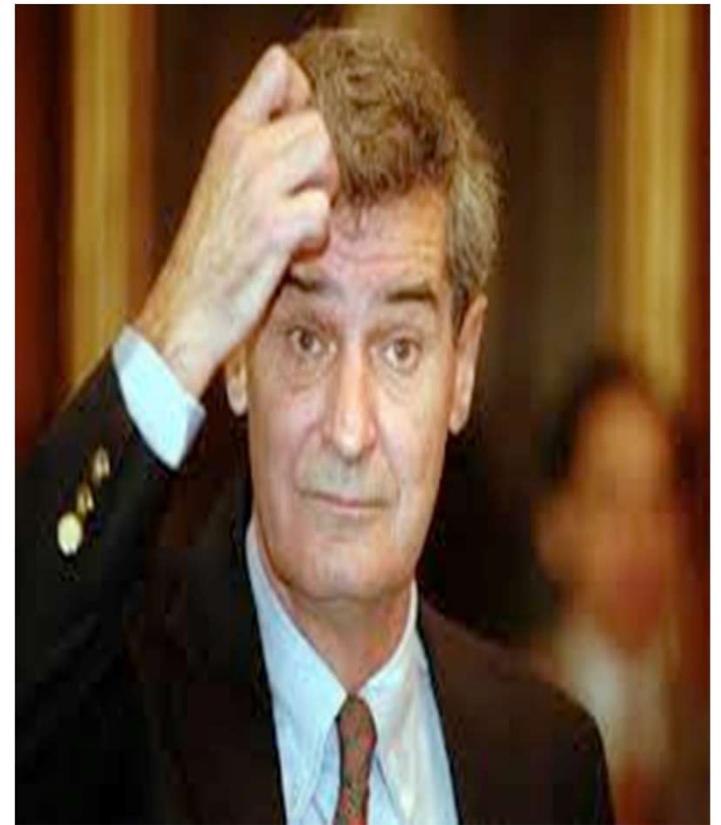
Risks of lack of coordination and weaponization of the dollar (under Trump)

Why did some economists get it wrong?

Development economics and long
term growth models at stake

Robert Lucas
(Nobel prize winner)

“My thesis in this lecture is that macroeconomics in this original sense has succeeded: its central **problem of depression prevention has been solved**, for all practical purposes, and has in fact been solved for many decades” (2003)



Economic theory is about reality (*The Economist* after the crash)



1) interruption of production chains

+

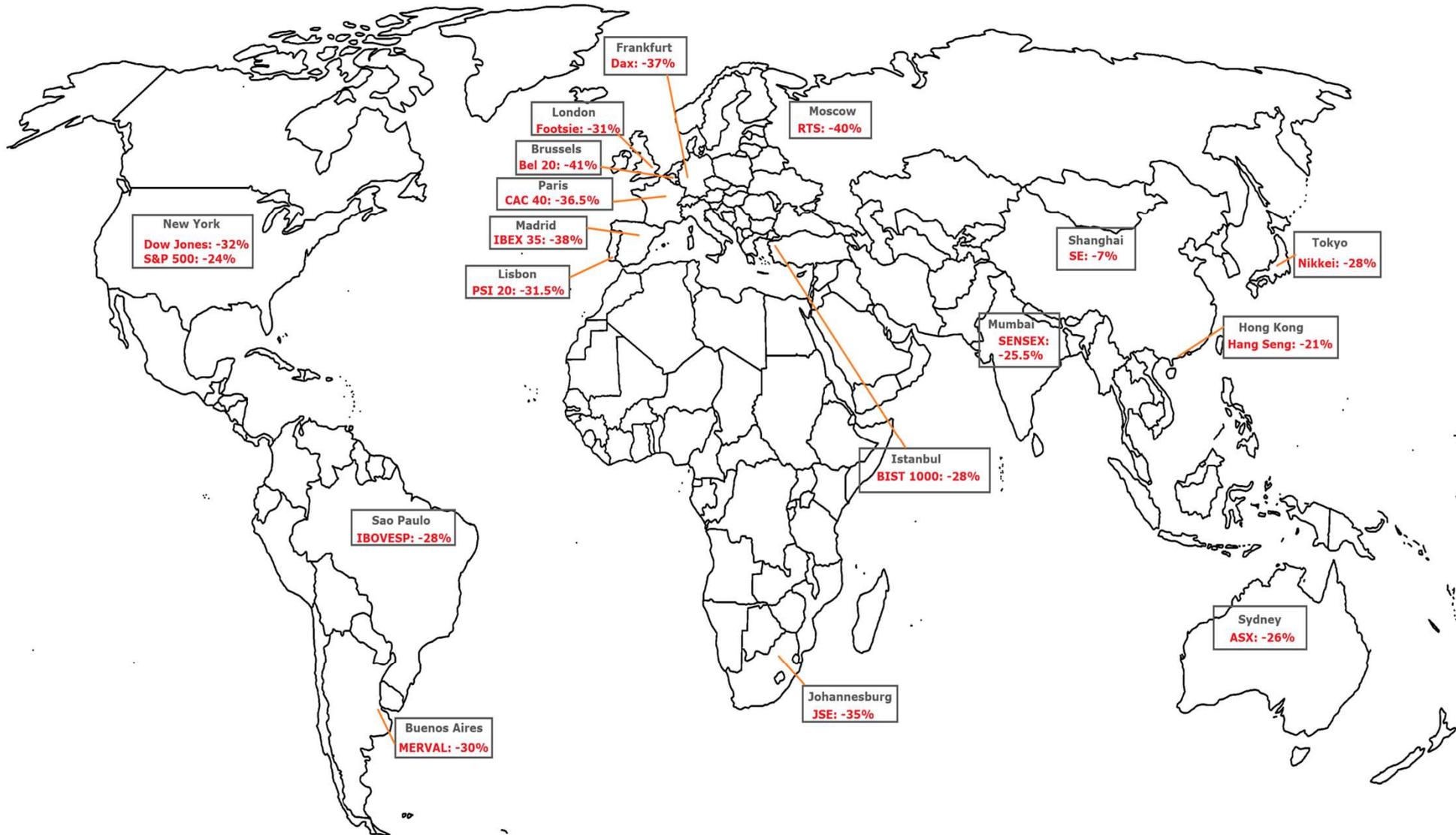
2) financial crash +

3) reduction of demand

(unemployment and reduction of investment)

Stock market crash

17 february to 17 march 2020

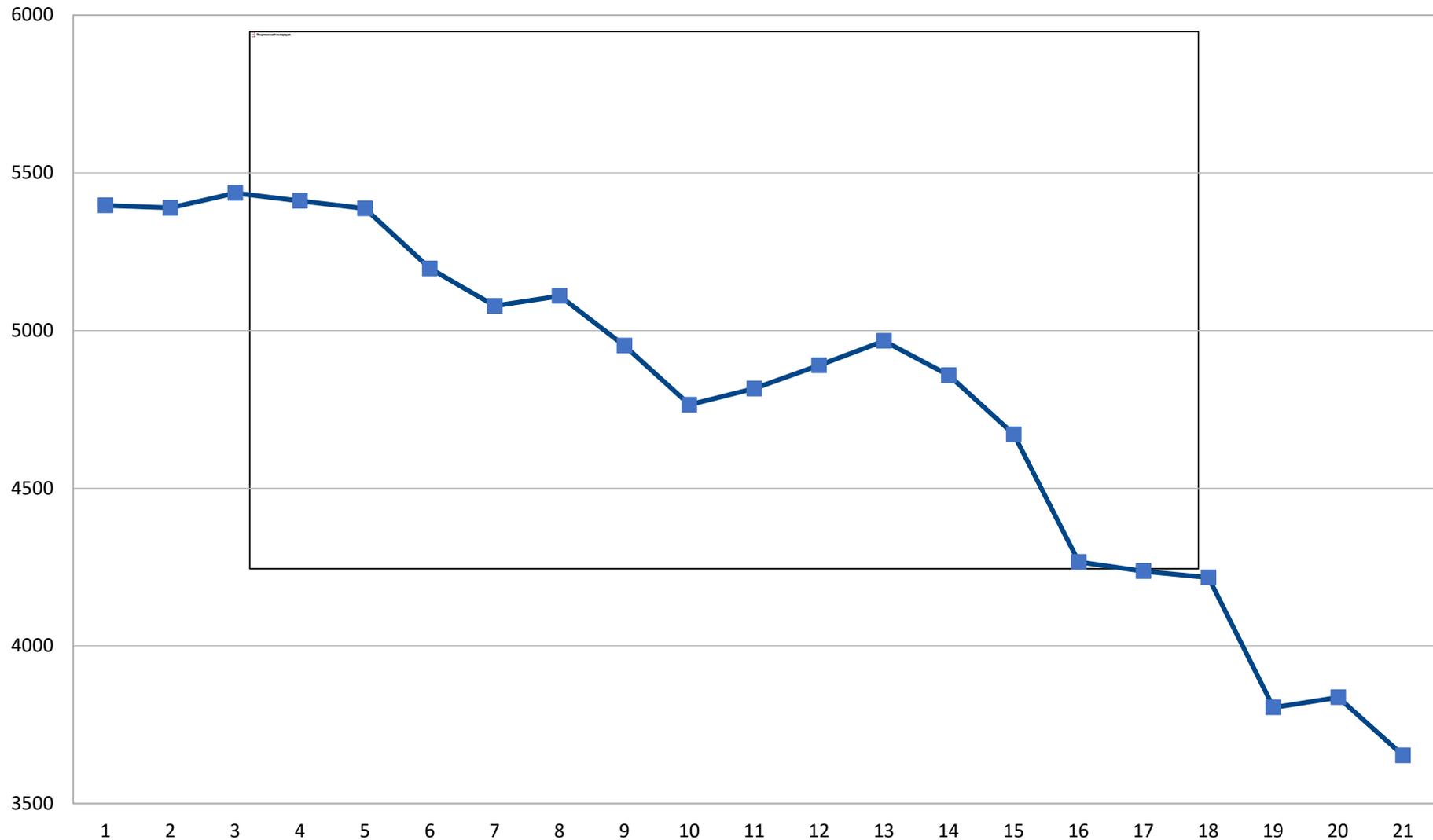


The US crash

(19 february-20 march 2020, fall of 32%, S&P500)



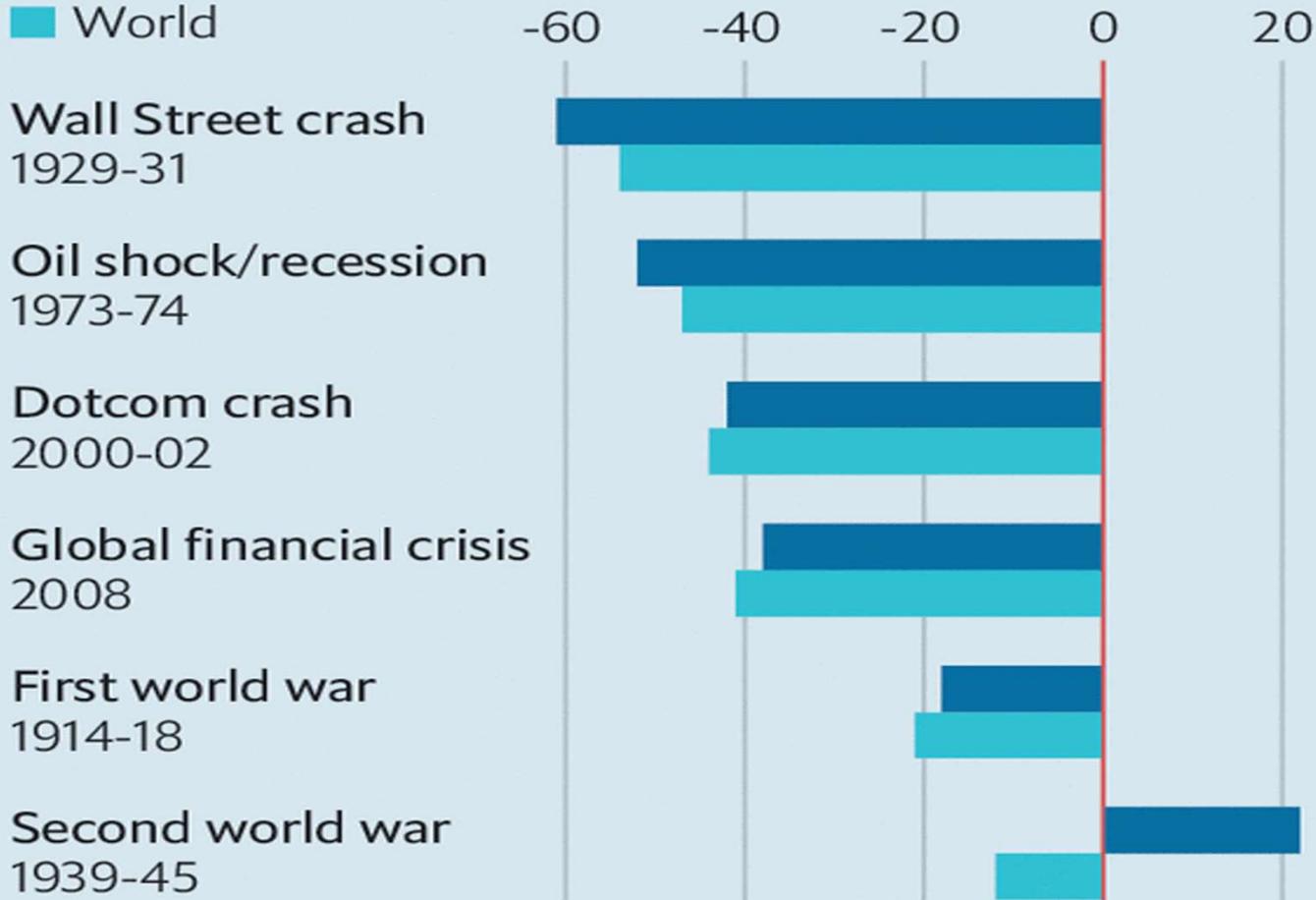
Portugal: fall of PSI20, 17 february to 16 march 2020 (less 33%)



How low can they go?

Real stockmarket returns during six worst periods*, %

■ United States
■ World



*Calendar years

Source: "Credit Suisse Global Investment Returns Yearbook 2020" by Elroy Dimson, Paul Marsh and Mike Staunton, London Business School

Comparison:
different
crashes
through time

Which are the consequences?

- Unemployment (10 million new unemployed in two weeks, US, march 2020), it may get to 40 million
- Huge government deficits (and at which interest rate will they be paid?), this was an important topic for the discussion at the European Council
- Bankruptcies, many firms out of business

Growth in unemployment USA

(2 last weeks of march and first of april 2020)

