Assignment 2

<u>Submission Instructions</u>: Type up your answers to written questions whenever possible and include handwritten graphs etc. as pictures embedded in the file. Put each sub-part of each question on a new page (e.g. Question #1 Part A on page 1, Part B on page 2 and so on), *including* any pasted in pictures/graphs. Use 12 point font. Upload your solutions to both bCourses and Gradescope (if you are unfamiliar with uploading assignments to Gradescope, you can find a guide here: <u>here</u>). Please *do not* repeat the questions in your submission file (this sometimes leads to Turnitin spuriously flagging assignments for review).

Finally, pay close attention to the length restrictions in the questions (e.g., "No more than a paragraph"). While we were lenient on Assignment #1, for future assignments, there will be strict enforcement of length restrictions. If you violate them, you will receive no more than a check (not check plus) on the assignment. A typical paragraph should contain no more than roughly 130 words.

Question #1
Continuation of Assignment 1, based on:
Blinder, Alan S., and Mark W. Watson. "Presidents and the US economy: An econometric exploration." *American Economic Review* 106.4 (2016): 1015-45.
https://pubs.aeaweb.org/doi/pdf/10.1257/aer.20140913

In this question, you will obtain and analyze the data used by Blinder and Watson.

Note: All of the questions below can be answered by taking simple averages in excel. You do not need to run regressions (though you are welcome to do so if you are comfortable with regressions). You might also find it convenient to work with Excel's data summary modules such as Pivot Tables and Pivot Graphs (but this is by no means required).

Though some of your analysis will be related to Blinder and Watson's, all of your comments should be based on your own calculations and analysis, not on your reading of their work. The purpose of this assignment is to have you study these issues using your own independent analysis.

A. Download the data from FRED https://fred.stlouisfed.org/ to fill in the spreadsheet posted on the course website. Briefly describe your procedure for finding the data you downloaded. For the S&P 500 only, download the data from https://finance.yahoo.com/quote/%5EGSPC/ (which has a much longer time series). *You do not have to hand in the spreadsheet itself*.
B. Did the economy do better under Republicans or Democrats? Choose several measures from the spreadsheet to use in this analysis, and justify your choices. Consider several different choices for how to define who was in power, including the party of the President, the House, and Senate majorities. Do these choices matter?
C. How robust are your conclusions from part B to including/dropping extreme economic events (such as the Great Depression, Great Recession, Volcker disinflation, and the COVID crisis). Does including vs. excluding the Trump era affect the results?
D. So far, you have studied the relationship between the party in power, and *contemporaneous*

economic outcomes. One could also study economic outcomes immediately before or after a political party comes into power. Which do you think is most appropriate? Why?

E. What do you conclude regarding the *causal effect* of Democrats vs. Republicans on the economy. How convincing is the evidence? Feel free to draw both on your own analysis and on results from Blinder and Watson (2016) in your discussion. (No more than one paragraph)

Question #2:

Based on

Mankiw, N. Gregory, Jeffrey A. Miron, and David N. Weil. "The Adjustment of Expectations to a Change in Regime: A Study of the Founding of the Federal Reserve." *The American Economic Review* (1987): 358-374. (**Introduction, Section I and II only)**

https://www.jstor.org/stable/1804100?seq=1#metadata_info_tab_contents

A. Read the introduction and Section I. Create a bar graph of the regression coefficients D2-D12 and the constant term in Table 2 (column 2). What do the regression coefficients show?
B. Explain the logic for this graph using diagrams of shifts in the money demand curve. *Hint: Employment of seasonal laborers on farms tends to peak in the harvest season in the fall. How might this matter?* (No more than one paragraph)
C. Create a bar graph of the regression coefficients D2-D12 and the constant term in Table 2 (column 4). What do they show? How do they differ from those in Table2 (column 2)? Discuss both the economic magnitude and statistical significance of the coefficients.
D. Mankiw, Miron and Weil emphasize the difference between the results you plotted in Part A and Part C, and describe this as a consequence of the founding of the Fed. Recall your analysis of money demand in Part B. Propose an explanation for these facts based on the differential behavior of money supply under the classical gold standard vs. the Federal Reserve. (No more than one paragraph)
E. Some say we should eliminate the Fed and go back to the classical gold standard regime that was in effect in the period Mankiw, Miron and Weil study. The earlier parts of this question suggest this would have important consequences for interest rates. Discuss how this affects your views on the desirability of going back on gold. (No more than one paragraph)