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Economic Crises:A History of Economic Thought Perspective

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Economic Crises: A History of Economic Thought Perspective

Socrates Kraido Majune
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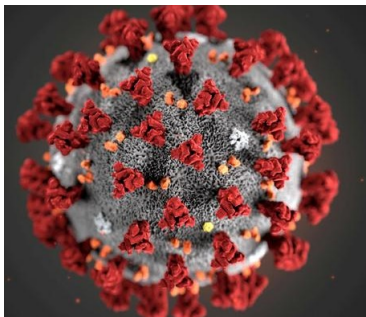
September 26th 2020

Presentation Outline

- ① Introduction
- ② Modern schools of economic thought
- ③ The 2007-09 Great Recession
- ④ Coronavirus
- ⑤ Learning Activities
- ⑥ End

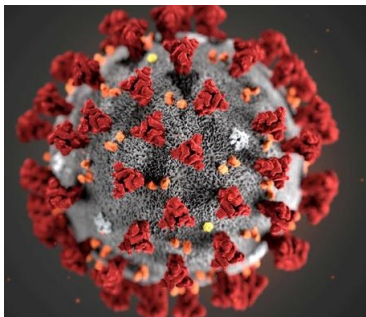
Overview

Figure 1: **Coronavirus**



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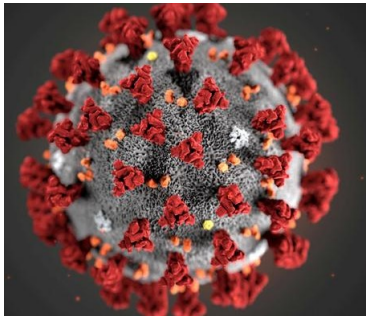
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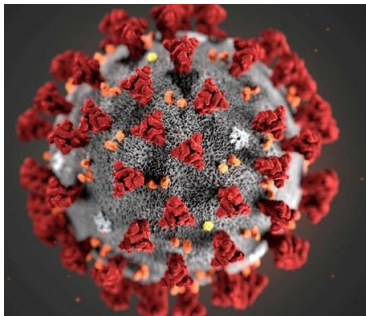
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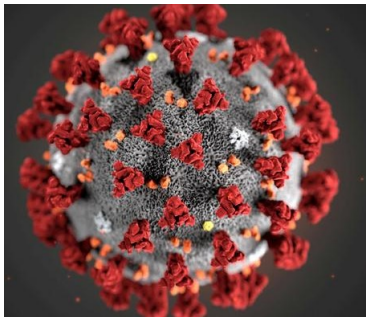
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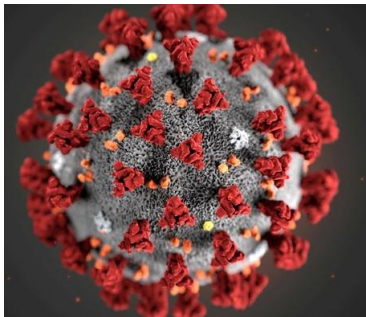
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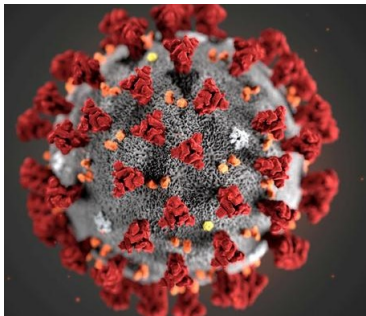
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- We are in a **recession** which might plunge into a **depression** if the condition persists

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- Economic crises are best explained by modern schools of economic thought ([from 1930s to date](#))
- These schools recognized economic imperfections could last for long

Keynesian School of Thought (1930s-1970s)

- Proposed by John Maynard Keynes (1883-1946)
- Motivated by [the Great Depression of 1930s \(1929-1940\)](#)

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- Their main work was [A Monetary History of the United States, 1867–1960](#)

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- Target Monetary Policy especially inflation and make markets to work better to permanently increase output. [Government interference in the structure of market incentives caused the depression - Friedman](#)

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1970s Recession: Solutions and implications

- (1) Theoretically, **rational expectations** other than **adaptive expectations** should be the way as economic agents do not make systemic errors
- (2) **"Death"** of Keynesian approach to policy due to ignorance of supply-side factors (firms and factors of production)
- (3) Microeconomics should explain Macroeconomics
- (4) Reduce taxes and the short-run and long-run relationship between inflation and unemployment are the same

Real Business Cycle Macroeconomics (RBC) (1980s-)

- Influential RBC economists include: Ed Prescott (1940-) Nobel in 2004, Charles Plosser (1948-), Finn Kydland (1943-) Nobel in 2004
- Whereas economic agents are rational, they do not react immediately due to informational time lags
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Causes of economic crises

- Economic crises caused by Supply-side factors and not monetary sources
- Change in output and employment is due to technological change, natural disasters, tax rates, input price changes and incentives such as social welfare system

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Solutions of economic crises

- Policy makers (government and Central Bank) can act in the short-run

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- The world had experienced relative economic stability between 1990s and 2007
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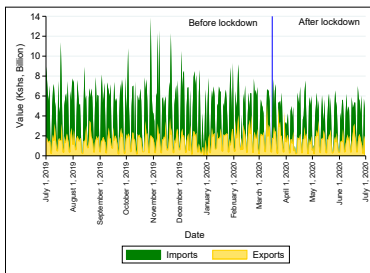
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- **Other interventions:** Cash and in-kind transfer programmes and raising social expenditure and training and re-training together with public employment services to increase employability

Coronavirus in Kenya

- First COVID-19 case reported on 13th March 2020
- Lockdown was implemented on 16th of March 2020, about two months after China's lockdown (19th January 2020)
- **37,707** cases as at September 26th 2020, **among the top 10** in Africa

Figure 2: Daily imports and exports for Kenya (1st July, 2019-30th June, 2020)



Source: Exporter Dynamics Database

- Before lockdown, average **exports=Kshs. 1.68 Billion** and **imports=Kshs. 4.71 Billion**
- After lockdown, average **exports=Kshs. 1.62 Billion** and **imports=Kshs. 3.70 Billion**
- Generally, the **negative effects** of the lockdown are **more on imports than exports, in Kenya**

Potential questions

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- Feel free to reach out on email: skmajune@uonbi.ac.ke

Thank You

Great Depression of 1930s

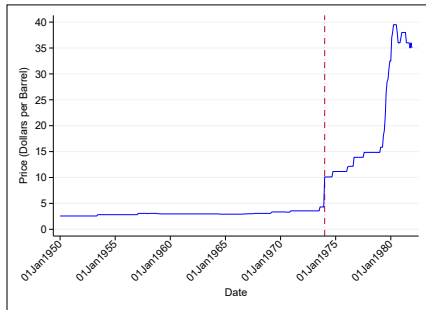
Table 1: **The Great Depression in advanced countries**

Year	Real GDP	Price level	Unemployment(%)	Trade volume
1929	100.0	100.0	7.2	100.0
1930	95.2	90.8	14.1	94.8
1931	89.2	79.9	22.8	89.5
1932	83.3	73.1	31.4	76.5
1933	84.3	71.7	29.8	78.4
1934	89.0	75.3	23.9	79.6
1935	94.0	77.6	21.9	81.8
1936	100.6	81.4	18.0	85.7
1937	105.3	91.5	14.3	97.4
1938	105.4	90.4	16.5	87.0

Source: Crafts and Fearon (2010)

1970s Recession: Stylized facts

Figure 3: **Global Oil prices (1950s-1985)**

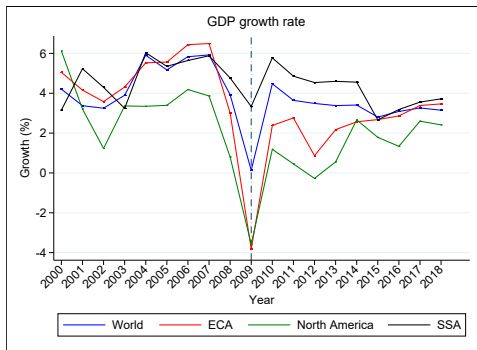


Source: FRED Economic Data [◀ Back to New Classics](#)

- Large increases in the price of oil due to Yom Kippur war in 1973 and the Iranian revolution of 1979 (OECD countries)

The 2007-09 Great Recession: Stylized facts

Figure 4: **GDP growth rate around the world: 2000-2018**



Source: World Development Indicators

[◀ Back to 07-09 Recession](#)

- Developed countries were worst affected
- Sub-Saharan Africa was least affected of the three categories