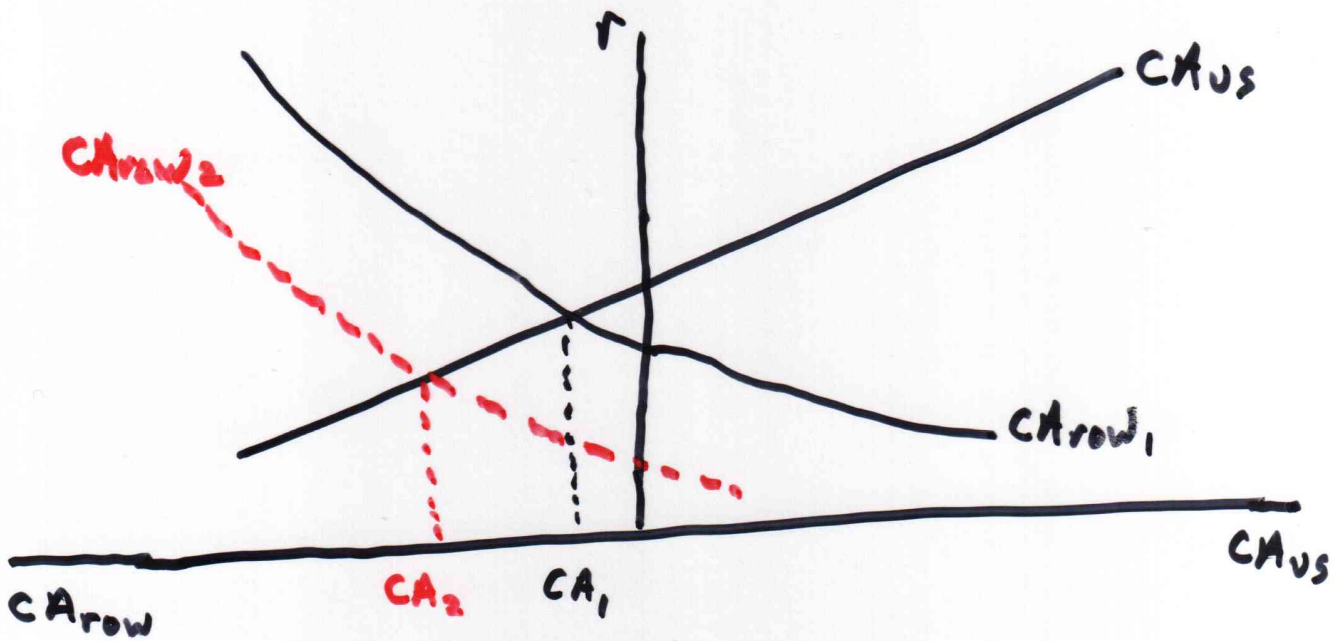


Global Factors in the Crisis

- 1.) Global sales of U.S. mortgage-backed securities (about $\frac{1}{3}$ of total).
- 2.) Precautionary Saving in Asia
(Response to 1997-98 Asian Crisis?)
- 3.) Undervalued Asian Currencies, especially China
- 4.) High oil prices + Middle East Current Acct. Surpluses.

Bernanke's (2005) "Savings Glut" Hypothesis



- Obstfeld & Rogoff argue that low real rates in early 2000s due to collapse in investment demand (due to bursting of tech bubble) and to accommodative/loose monetary policy, not a high Asian saving rate.

Figure 1: Global imbalances, 1995-2009

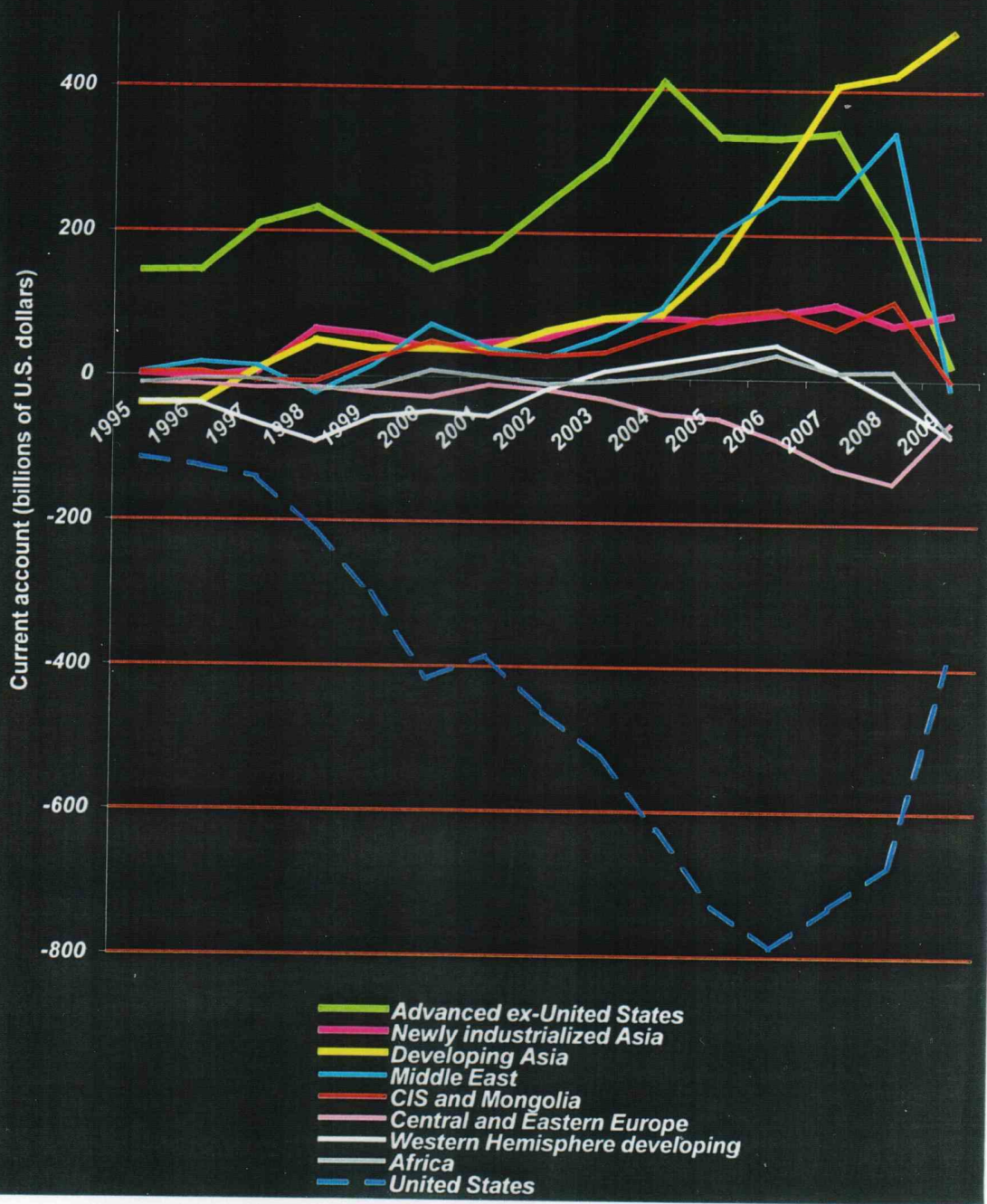


Figure 2: Global Commodity Prices

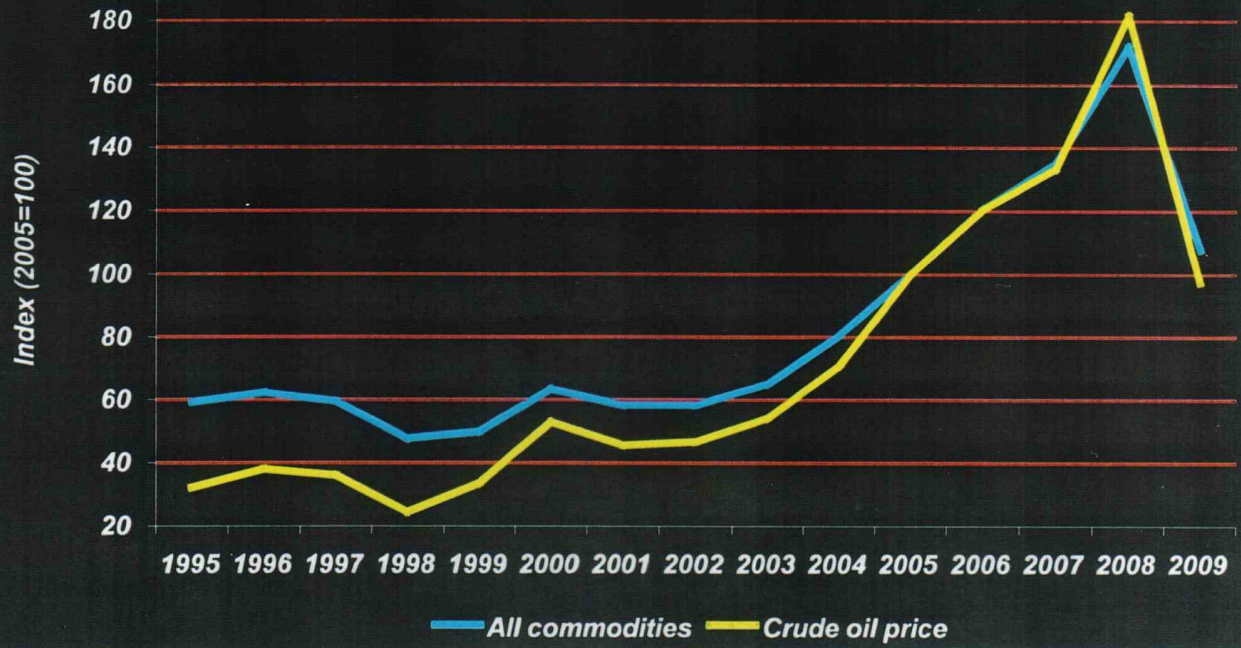


Figure 3: Real Exchange Rates of Selected Asian Currencies

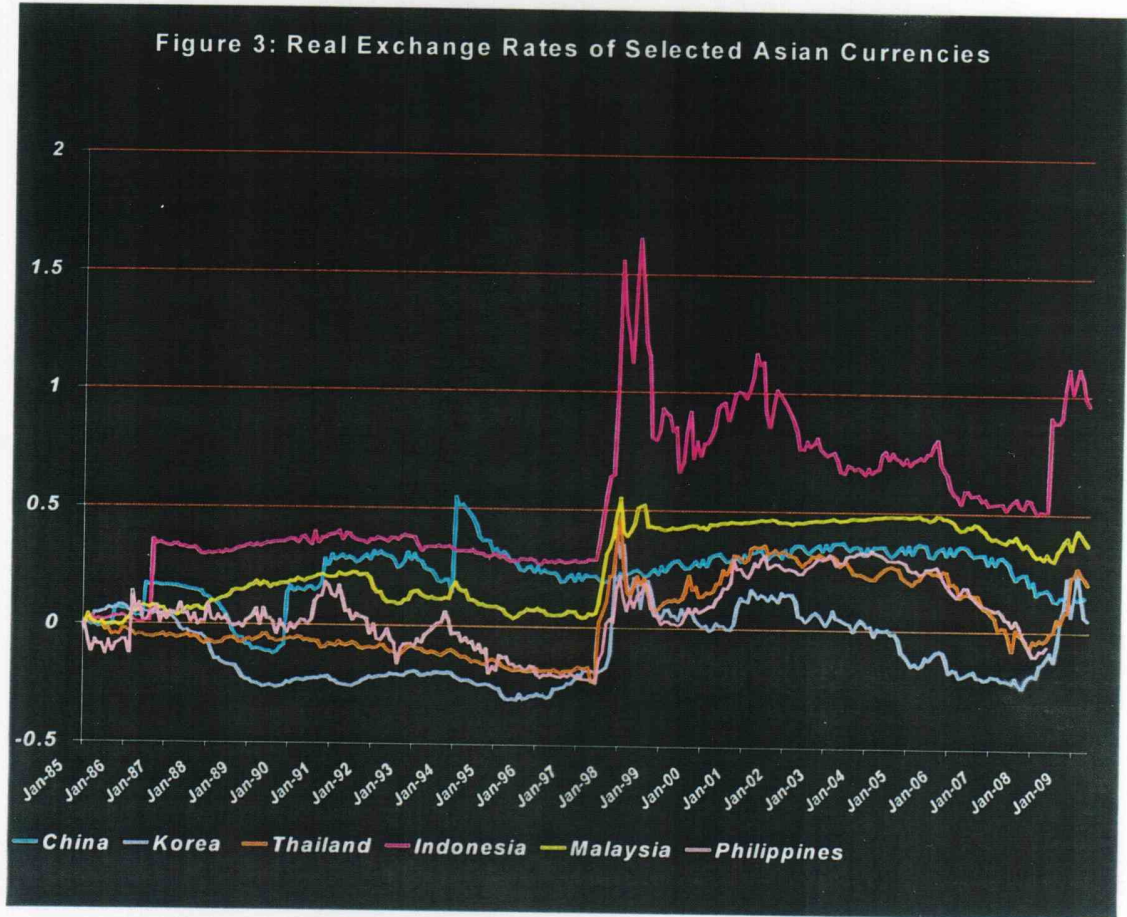


Figure 4: Emerging Market Growth of International Reserves

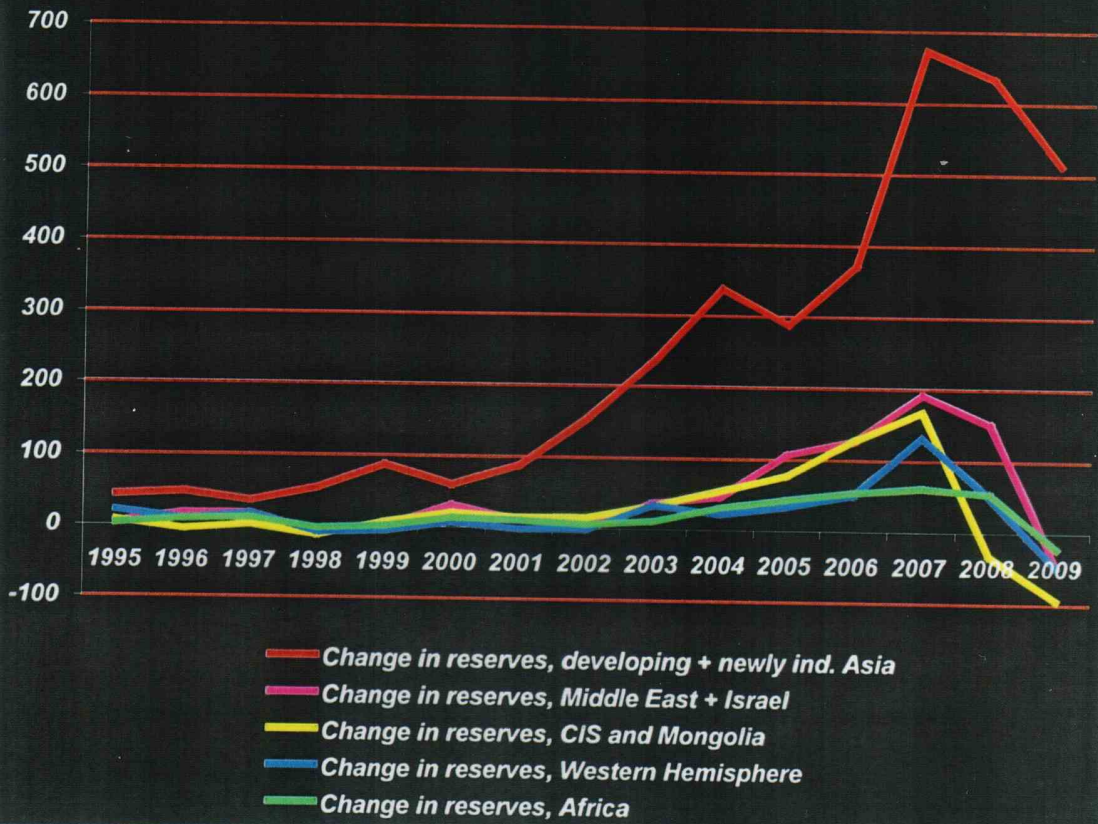


Figure 5: China's Monetary Base and International Reserves

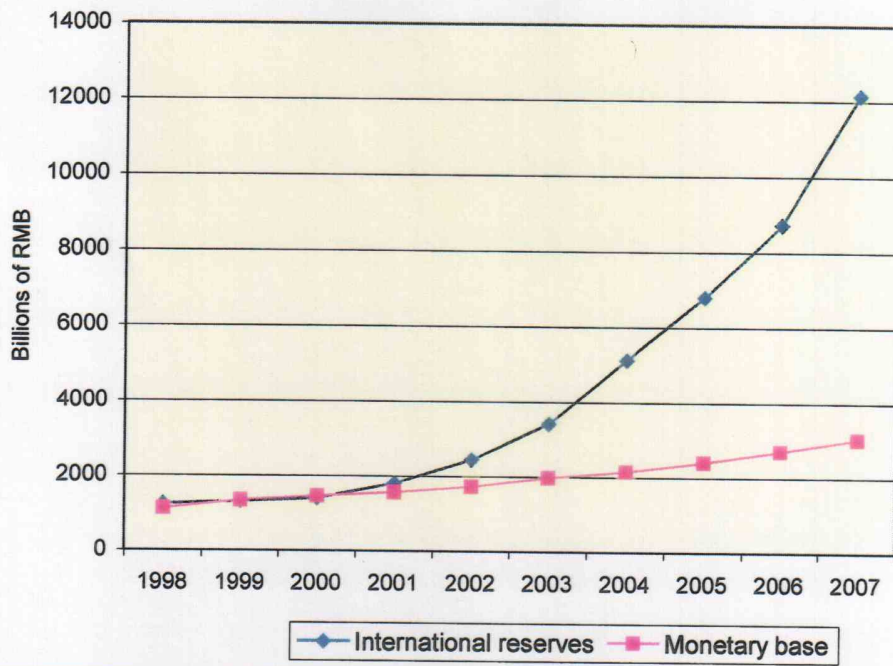


Figure 6: Long-Term Real Interest Rates



Figure 7: Nominal U.S. Asset Prices and Real Interest Rate



Figure 8: Policy Interest Rates

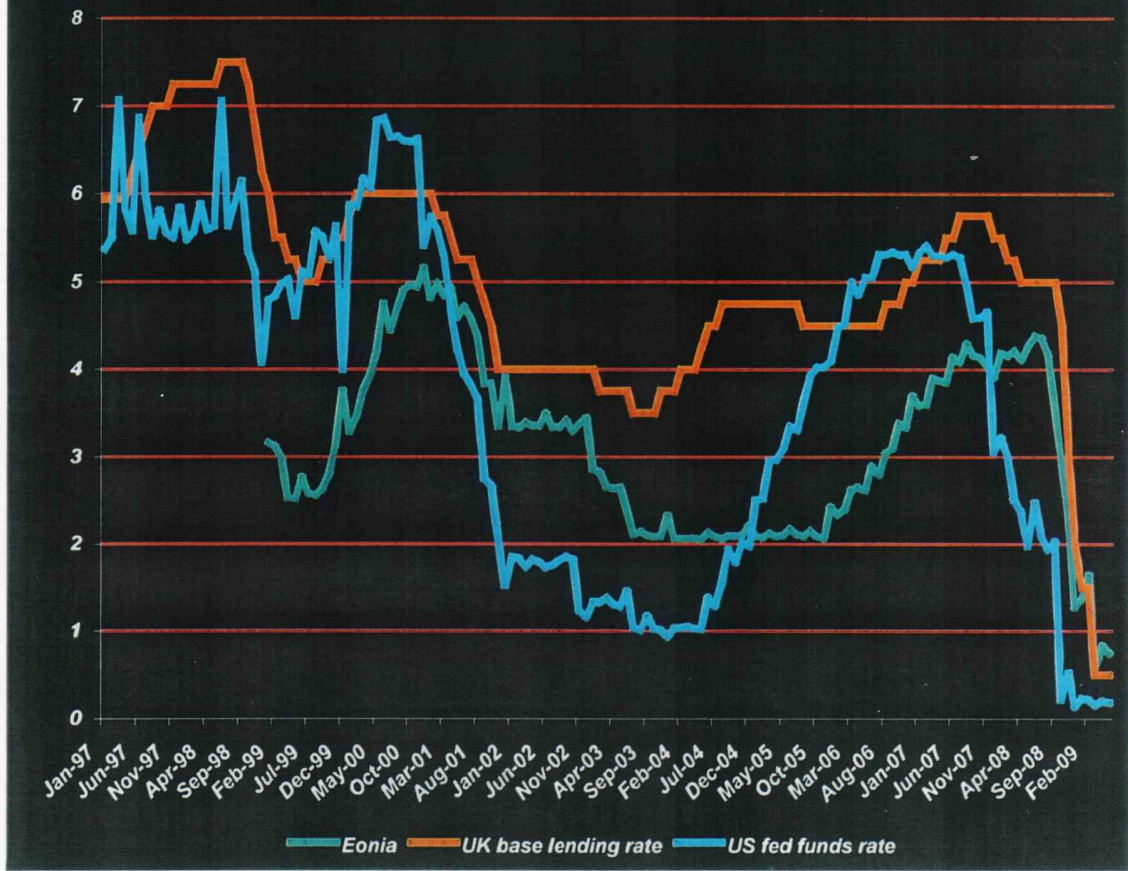
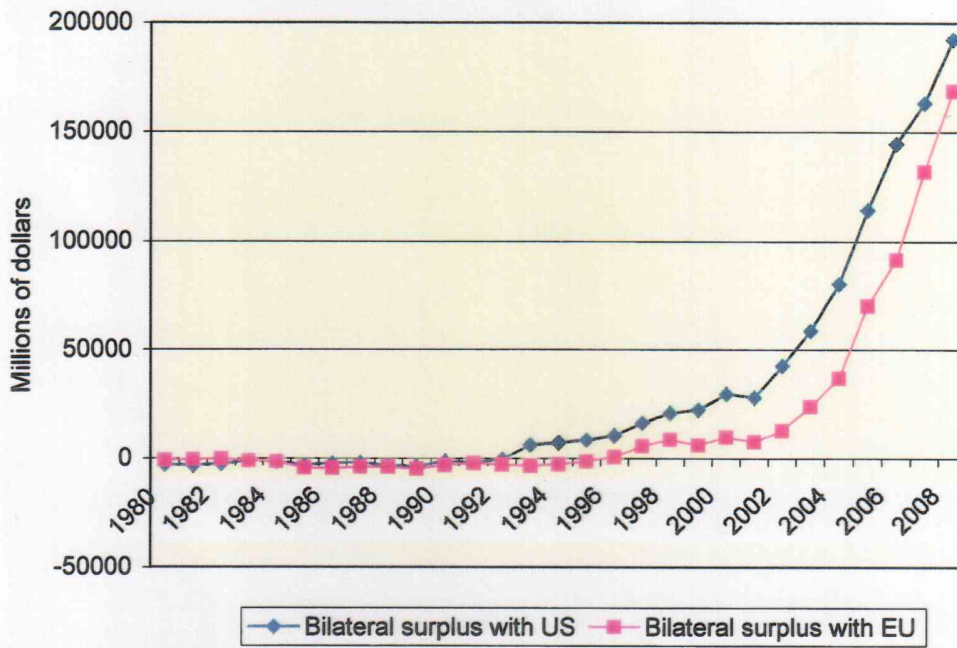


Figure 9: China's Trade Surpluses with United States and European Union



Looking Forward

- Obstfeld + Rogoff argue that the following policy reforms would reduce the chances of future crises:
 - 1.) Monetary Policy Should Respond More to Asset Prices (and the current acct.?).
 - 2.) Asian Economies Should Promote the Development of their Domestic Financial MKts. (this would support greater domestic consumption).
 - 3.) Greater international cooperation on the regulation/supervision of intl. financial institutions.