

# Is now the time to get rid of New Consensus Macroeconomics?

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# The limitations of NCM

- The assumptions of individual rationality and perfect information
- The notion of equilibrium
- Neutrality of money
- No role for institutions, history or geography

# Why is the NCM so influential?

- It suits the self interest prevalent in financial markets
- It suits the 'physics envy' prevalent in academic economics

**All economic models are  
particularly bad at explaining  
unique**



# WALL STREET CRASH!

## Black Thursday in America Stocks Plunge and Eleven Commit Suicide

Paris calling for the New York Stock Market yesterday morning. Creditors clamour for payment in gold today.

Market falls in its early morning session, followed by a sharp recovery of shares and gains. Investors flooded the market with orders from their American friends along with.

In the session which took place the market fell to a low point with the stock exchange closed early for the day and the fall of water companies failed during the course of the morning.

The high early morning fall was a result of a combination of factors and the heavy trading stopped at 11.30 a.m. when the stock exchange closed for the day. The fall was a result of a combination of factors and the heavy trading stopped at 11.30 a.m. when the stock exchange closed for the day.

### Crash Morning

A crash morning at New York's leading markets was followed by a fall of 10.5 per cent in the afternoon, as the market fell to a low point.

Wall Street also closed a day earlier than usual, but the market was still in a state of confusion. The fall was a result of a combination of factors and the heavy trading stopped at 11.30 a.m. when the stock exchange closed for the day.

News



Flocking investors gather around the statue of George Washington on Wall Street.

## What Went Wrong?

The initial reaction was of a nature to be expected, but the fall was a result of a combination of factors and the heavy trading stopped at 11.30 a.m. when the stock exchange closed for the day.

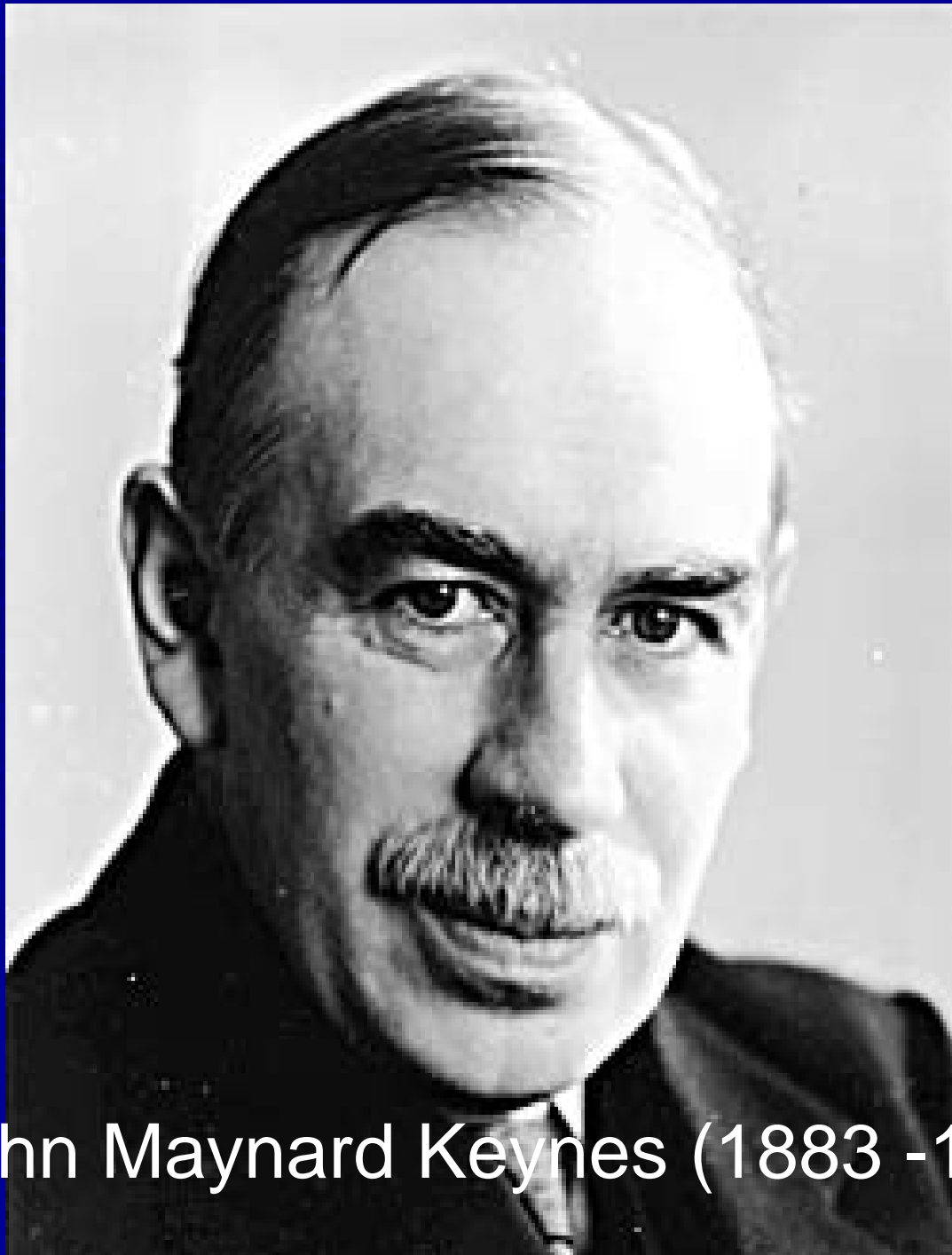
Various reasons are given for the crash, but the fall was a result of a combination of factors and the heavy trading stopped at 11.30 a.m. when the stock exchange closed for the day.

News

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City of New York. The fall was a result of a combination of factors and the heavy trading stopped at 11.30 a.m. when the stock exchange closed for the day.

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John Maynard Keynes (1883 - 1946)





Milton Friedman (1912  
- 2006)



Margaret Thatcher (1925-)

15800	15800	15800-	15800	PROCT	22.40	20200	22.40-	250	TK
15800	15800	15800-	15800	FREDIAG	555	0	555-	110	THITY
215	215.75	215-	215	RE	450	450	450-	200	US
205	205	205-	204	SWPACI	254	250		204	ZHICO
105	105	105-	105	TRMT	157	150	150-	100	APURE
475	480	475-	480	USC				48	DAIDO
11	11.00	11-	11.00	ACL	302	304	302-	150	HTC
175	180	180-	180	AEDHTS	42	4350		47	KSL
505	500	510-	500	AITCO				550	LST
370	375	385-	385	ABL	100	105	105-	105	MALEI
105	107	105-	105	ASP	300	304	304-	105	HFO
105	110	105-	105	BC				100	OISHI
505	505	505-	505	BLS	100	100	100-	100	PS
10000	100	100-	1000	CNS		100	1000-	100	POPPUI
10000	102.75	102.75-	102.75	FMS		11	1000-	100	PR
10000	10000	10170-	1000	CRK		101	1000-	100	SAP
1000	1000	1000-	1000	ACST		10	10-	100	SINGHA
1004	1000	1000-	1000	ROU		100	100-	100	SFP
100000	100	10000-	10000	ROU		100	10000-	100	SORDON
10075	100	10075-	10075	ROU		100	10000-	100	SBC
1000	100	100-	1000	ROU		100	100-	100	TC
1000	1000	1000-	1000	ROU		100	1000-	1000	TF
1000	1000	1000-	1000	ROU		100	1000-	1000	TIPCO
1000	1000	1000-	1000	ROU		100	1000-	1000	TUP
51000	50	51000-	50	ROU		50	50-	50	TVO
10000	10000	10000-	10000	ROU		100	10000-	1000	TWFP
10000	10000	10000-	10000	ROU		100	10000-	1000	UNC



# We are all Keynesians now

- Government intervention to manage demand
- Global financial regulation (Keynes: 'when the capital development of a country becomes the by-product of a casino, the job is likely to be ill done')

# We are all regulators now



- We've had irresponsible capitalism presided over by irresponsible government. We need strong, responsible and proper regulation of the financial systems that underpin our economy.
- David Cameron, The Conservative plan for a responsible economy, October 17, 2008

# We are all regulators now



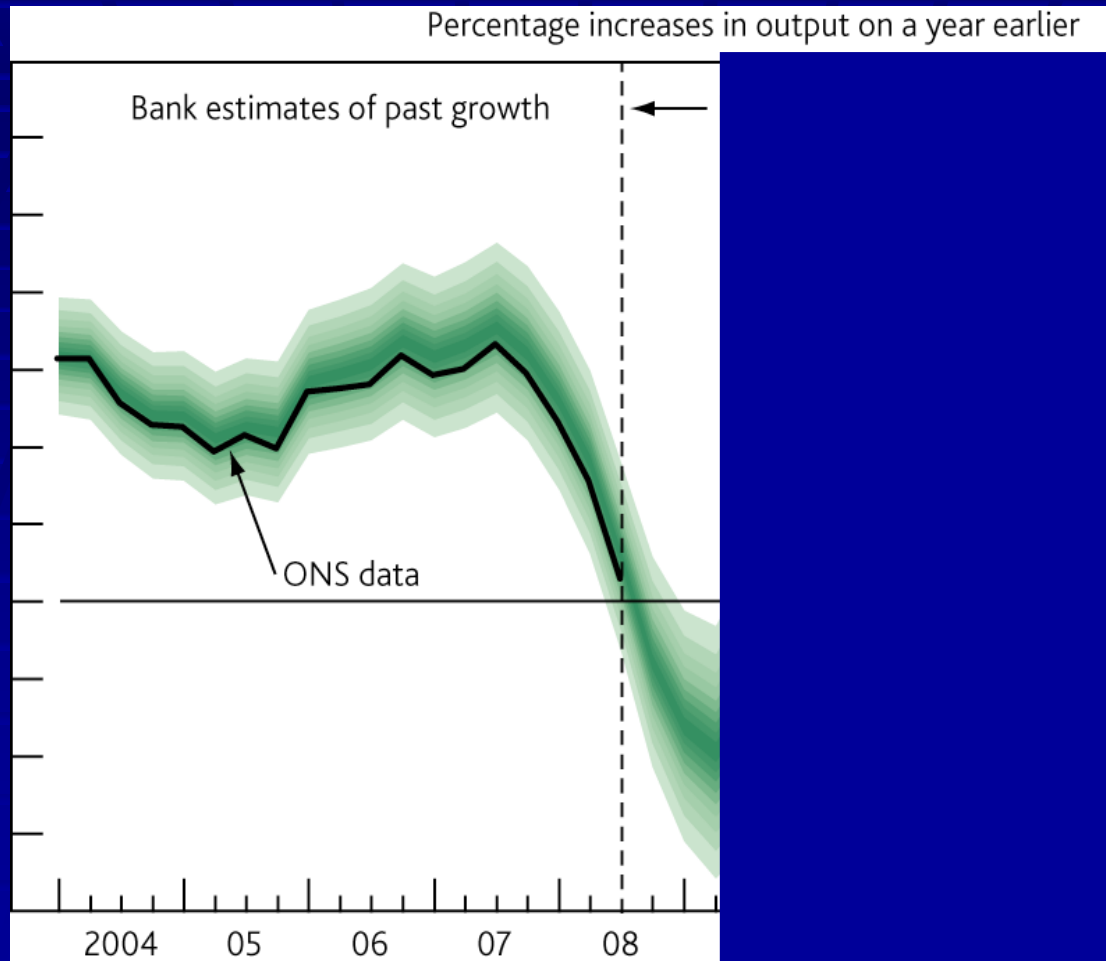
- The growth of the modern City as we know it was shaped by ....Conservative decisions..... the big bang of the 1980s removed a huge swathe of regulation that allowed the City to expand and removed restrictive practices. The lessons from the City are clear. Low tax. Low regulation. Meritocracy. Openness. Innovation.
- David Cameron, The new global economy, June 22 2006

# Well not quite all.....

- Inevitably, the combination of banking bailouts and chief executives walking away with generous payoffs, leads to calls for more regulations. But, in Britain at least, this should be resisted. We have regulations aplenty. More regulation risks damaging innovation and entrepreneurial activity that are vital to the success of the City of London, a crucial part of the British economy.
- Ruth Lea 'Spare us the meddlers' The Guardian, April 2008

# GDP projection based on market interest rate expectations

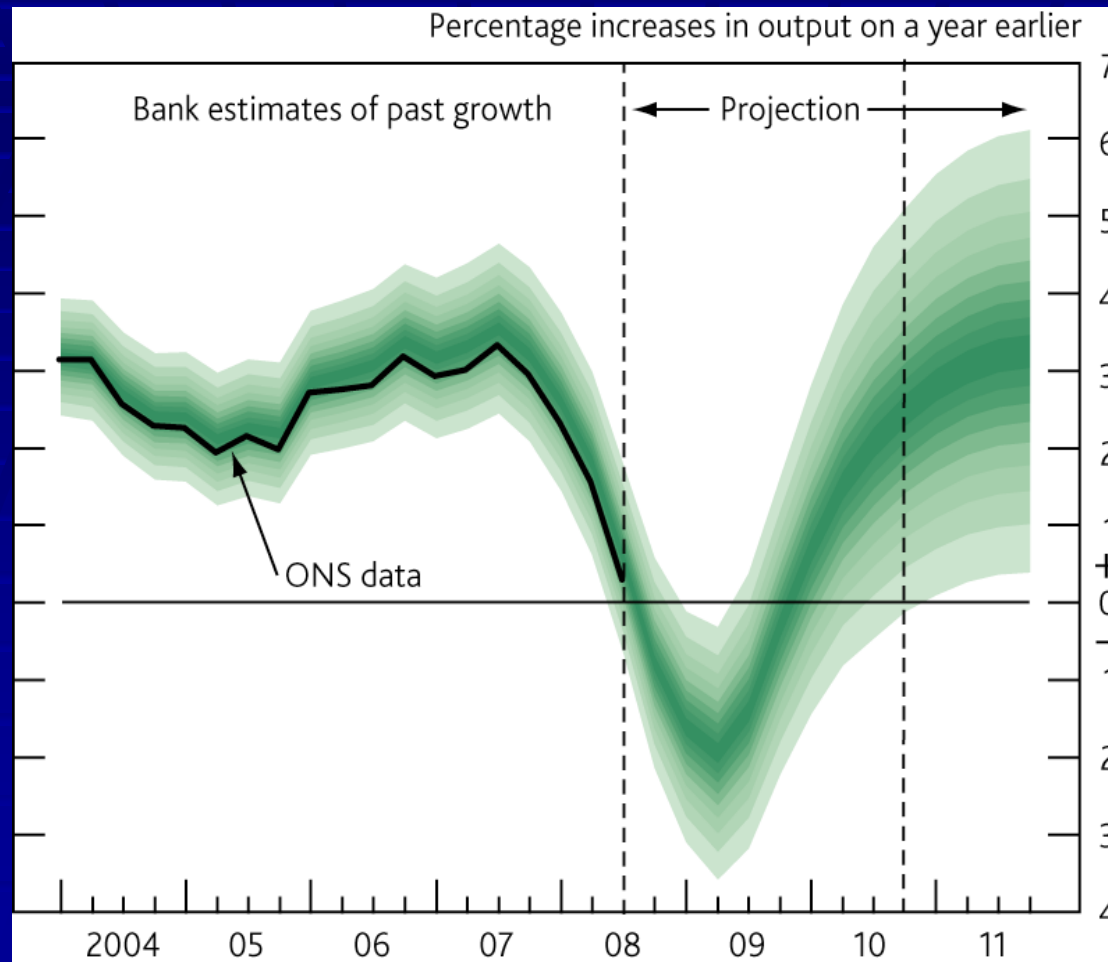
Source:  
Bank of  
England



The fan chart depicts the probability of various outcomes for GDP growth. To the left of the first vertical dashed line, the distribution reflects the likelihood of revisions to the data over the past; to the right, it reflects uncertainty over the evolution of GDP growth in the future. If economic circumstances identical to today's were to prevail on 100 occasions, the MPC's best collective judgement is that the mature estimate of GDP would lie within the darkest central band on only 10 of those occasions. The fan chart is constructed so that outturns are also expected to lie within each pair of the lighter green areas on 10 occasions. Consequently, GDP growth is expected to lie somewhere within the entire fan on 90 out of 100 occasions. The bands widen as the time horizon is extended, indicating the increasing uncertainty about outcomes. See the box on page 39 of the November 2007 *Inflation Report* for a fuller description of the fan chart and what it represents. The second dashed line is drawn at the two-year point of the projection.

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Source:  
Bank of England



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- Q: Is now the time to get rid of New Consensus Macroeconomics?
- A: Yes