

Figure A1: US LIBOR CREDIT SWAP SPREAD

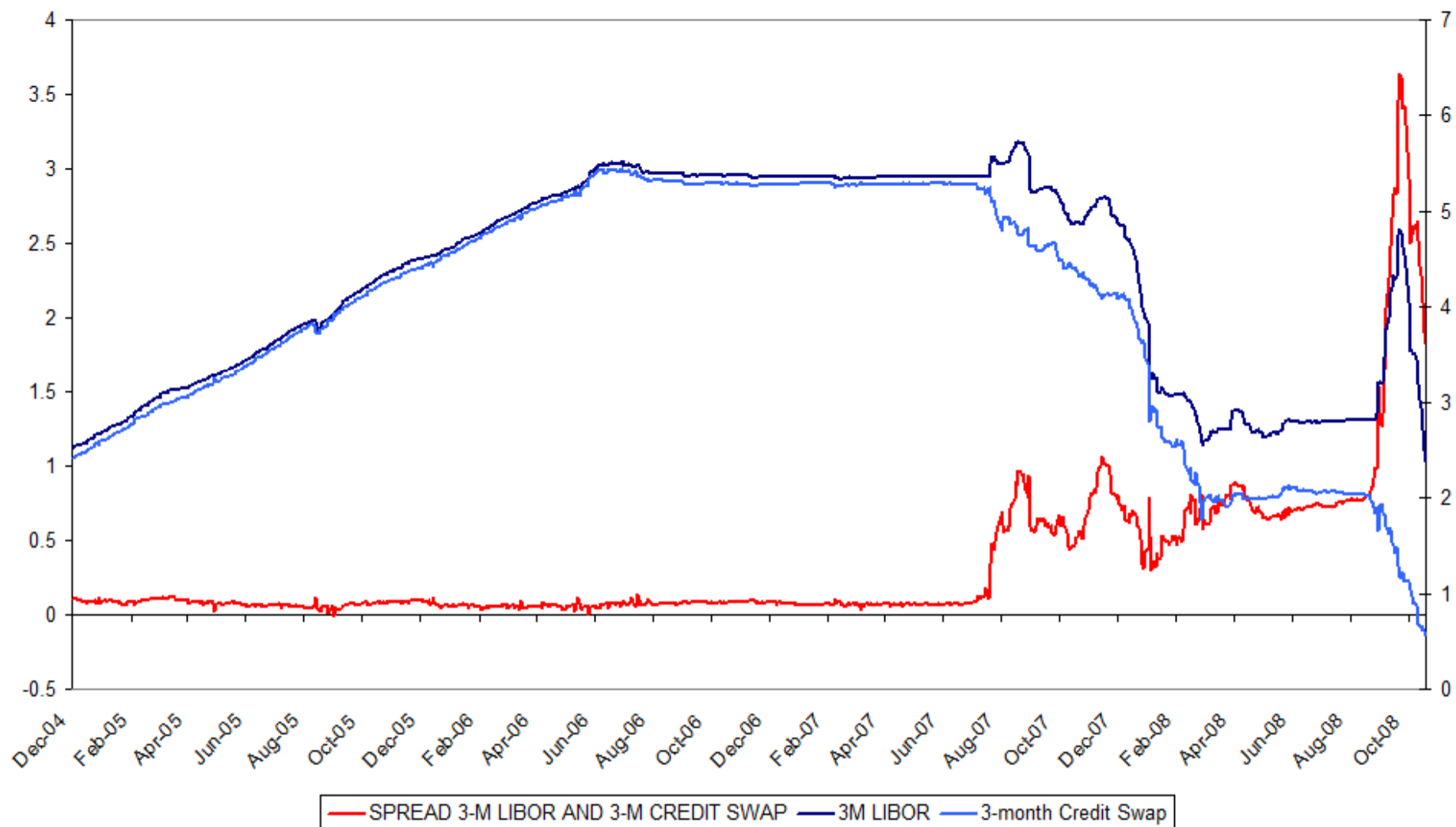


Figure A2: B US TREASURY SPREAD

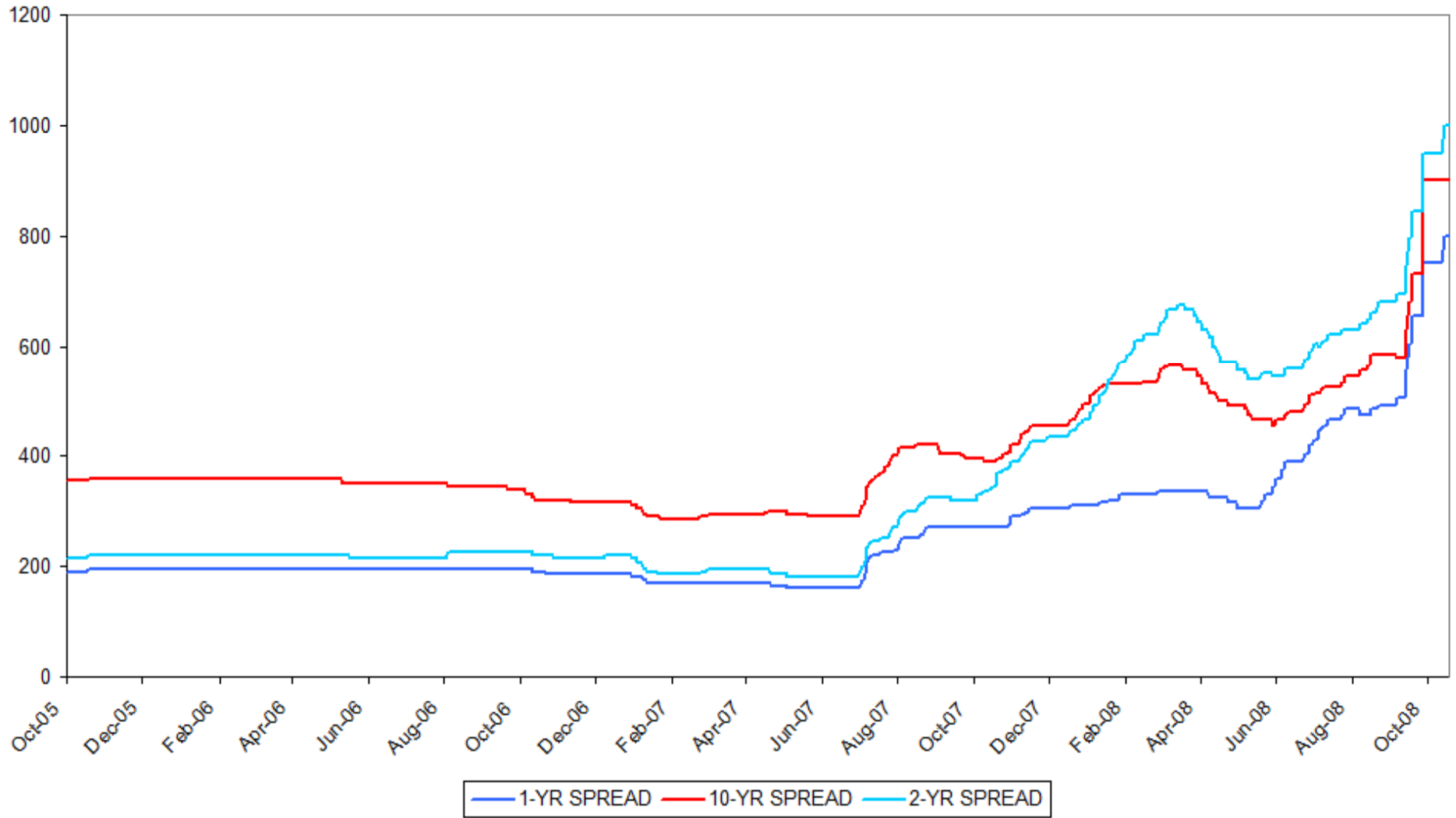


Figure A3: MEDIAN PRICE - EXISTING HOMES

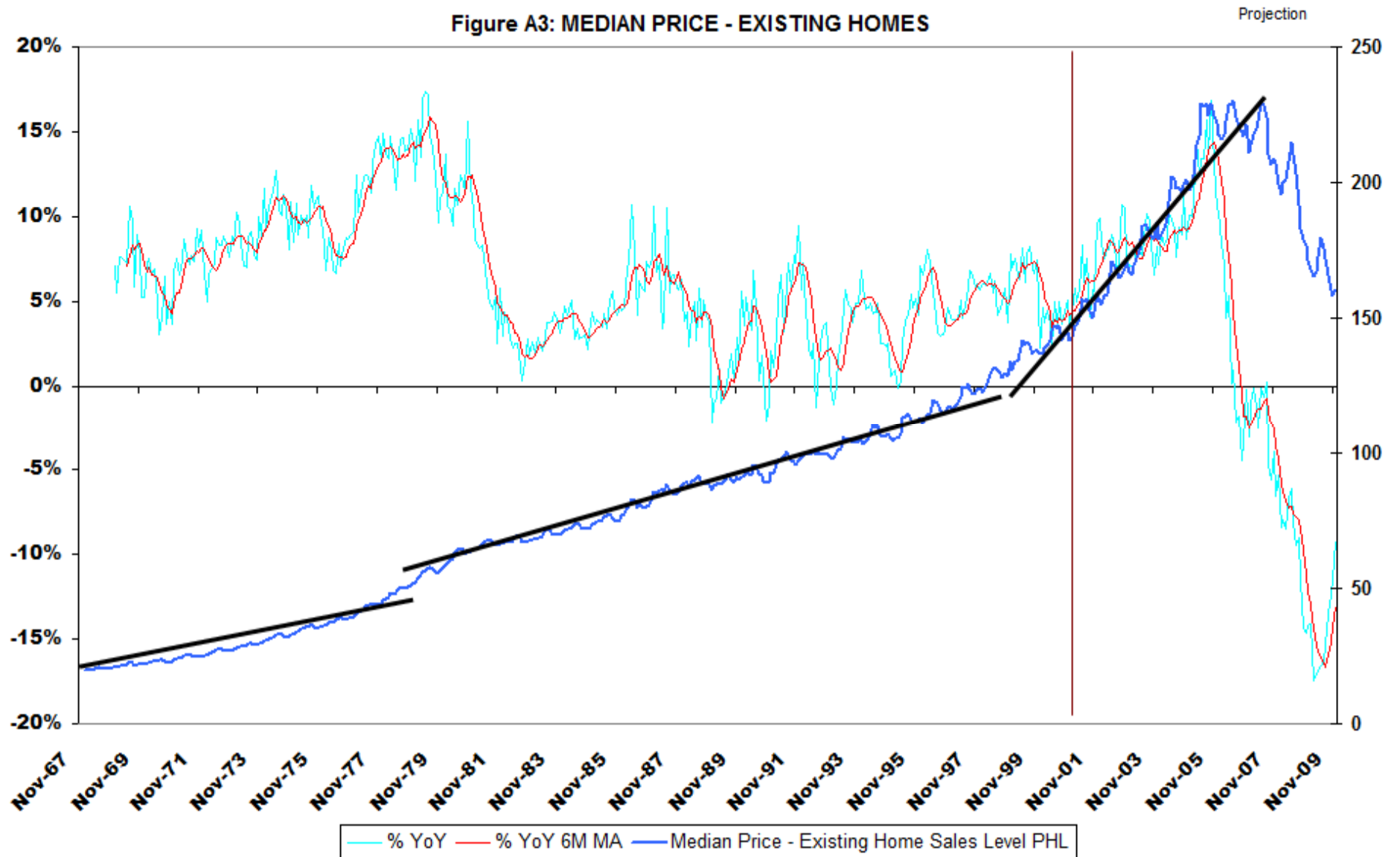
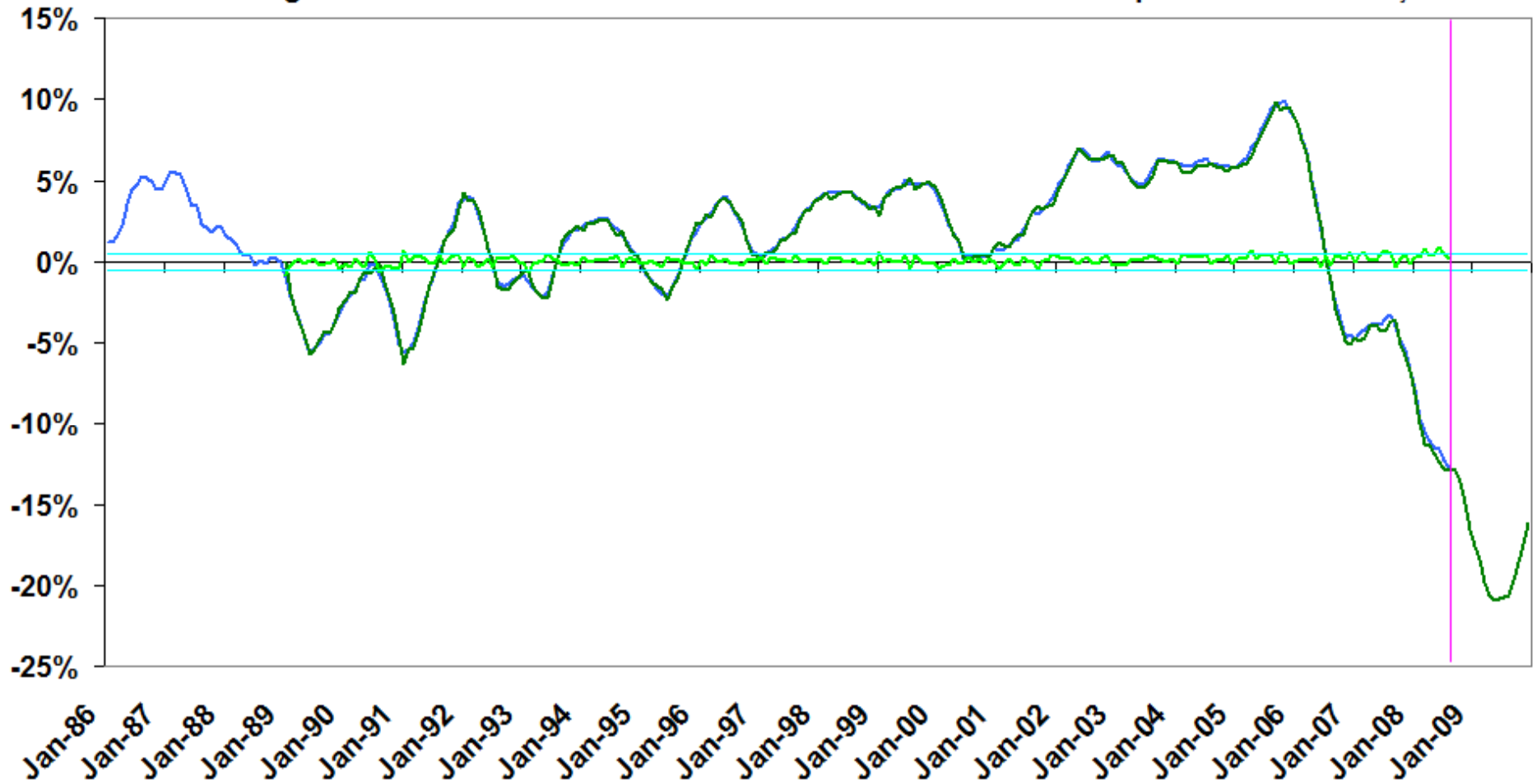


Figure A4: Relative Median House Price Inflation - Short run Equilibrium

Projection



— Actual House Price Inflation Relative to CPI %
— Scenario II D12LRP6
— Mean+2SD

— K-Model House Price Inflation Relative to CPI Scenario I
— Forecast Error %
— Mean-2SD

Figure A5: Financial Assets and Debt of the Personal Sector

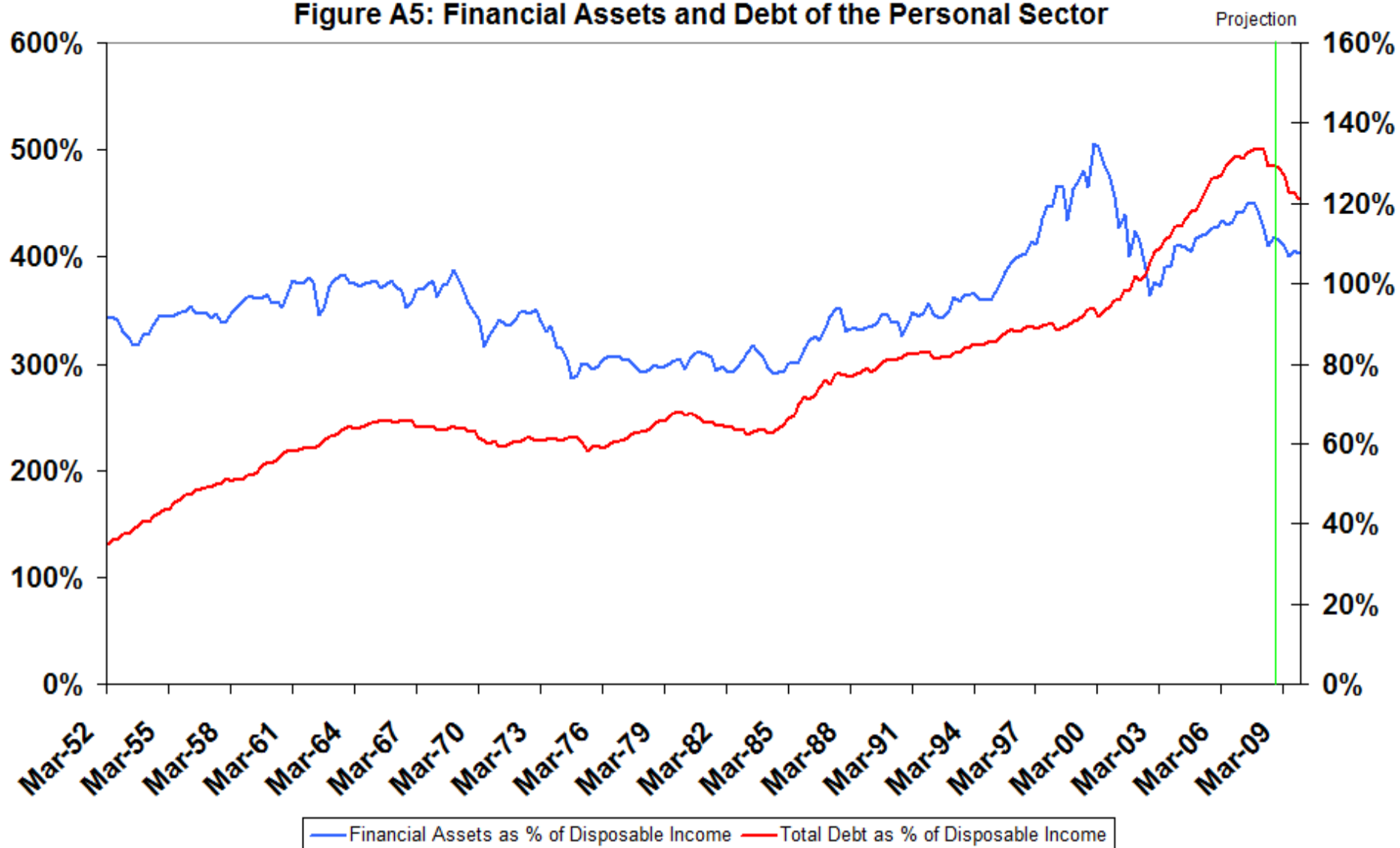


Figure A6: Gross, Net Real Estate of Households and Mortgage Debt

Projection

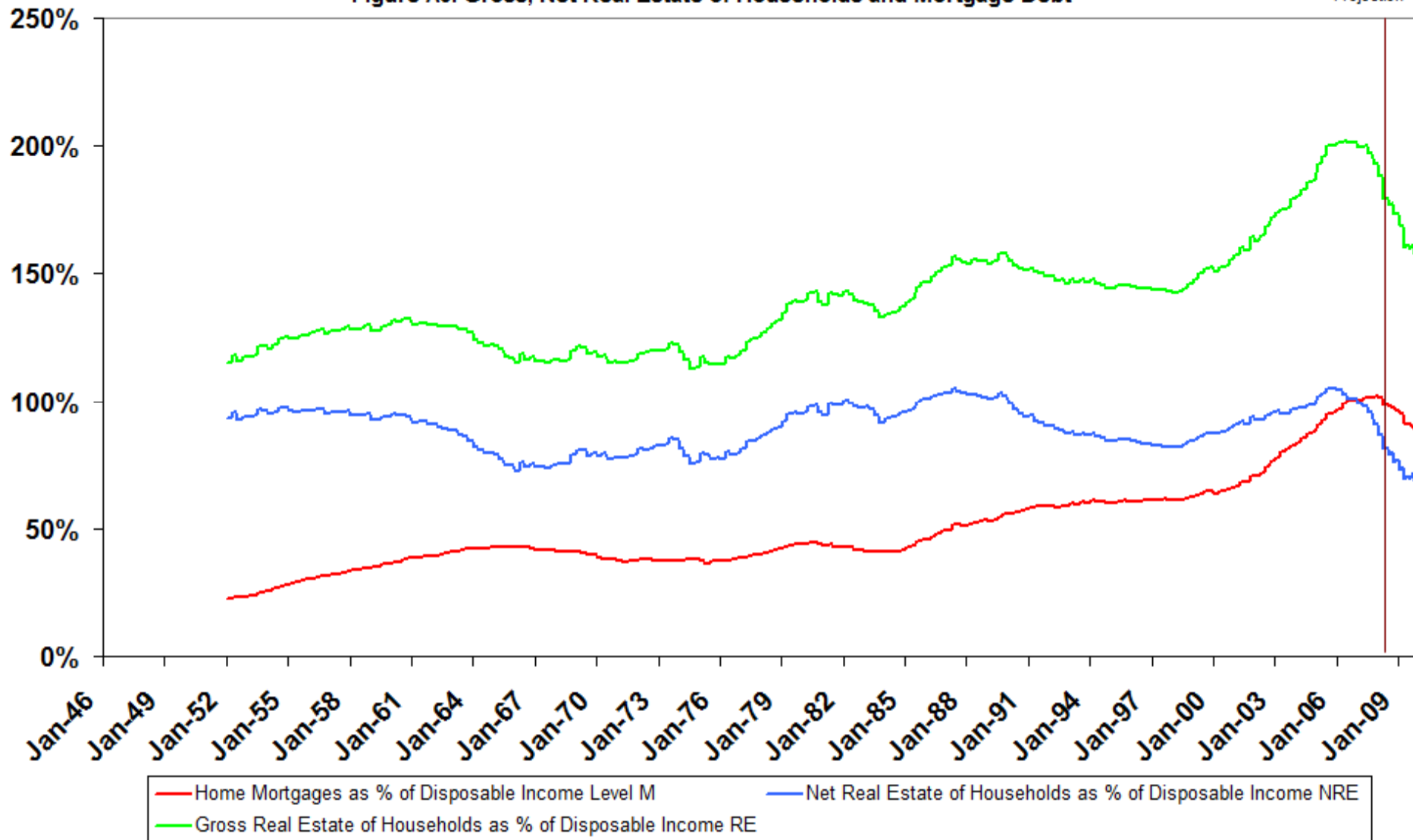


Figure A7: Household Net Wealth

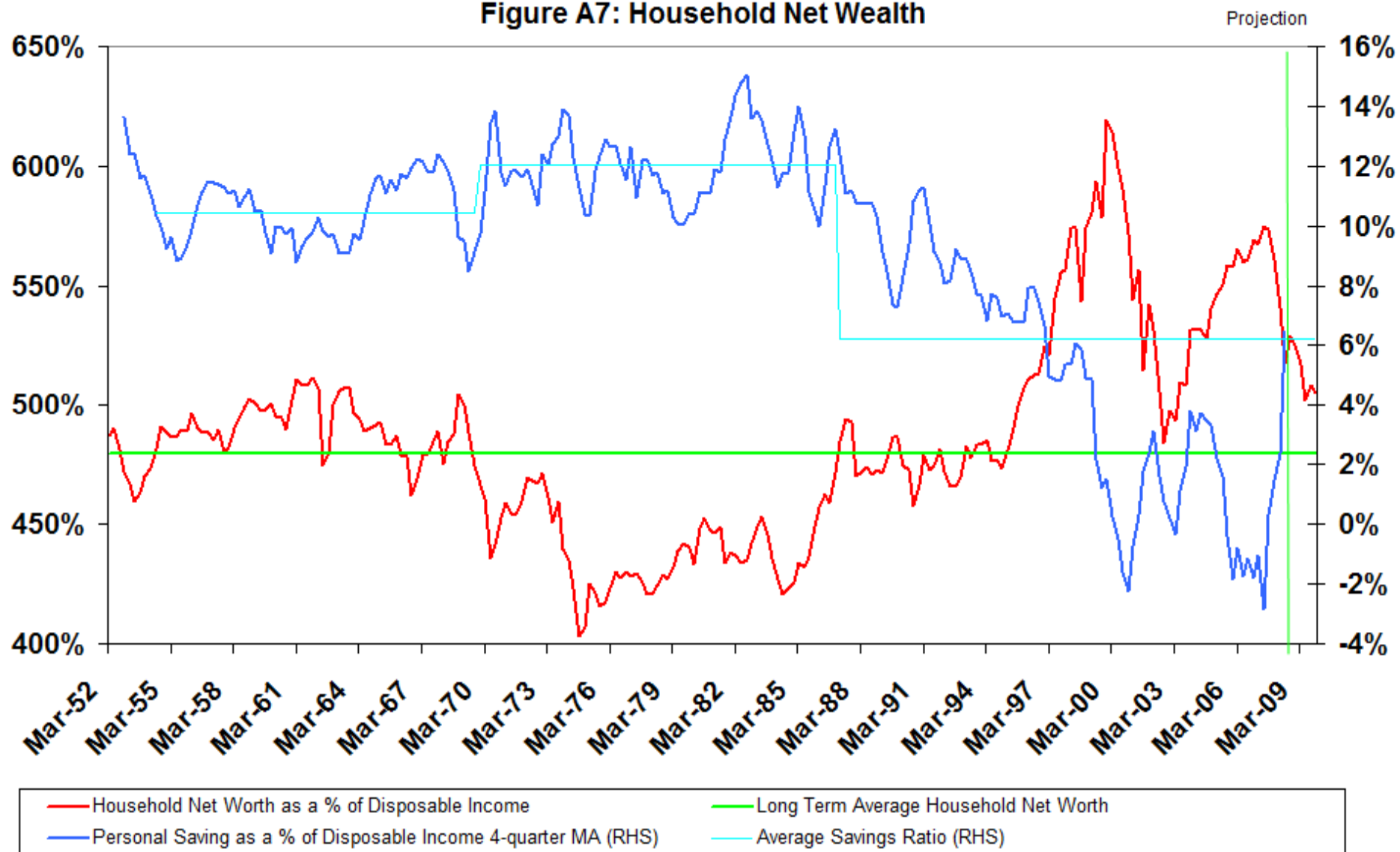


Figure A8: Employment Growth Non-Farm Payrolls - Short run Equilibrium

Projection

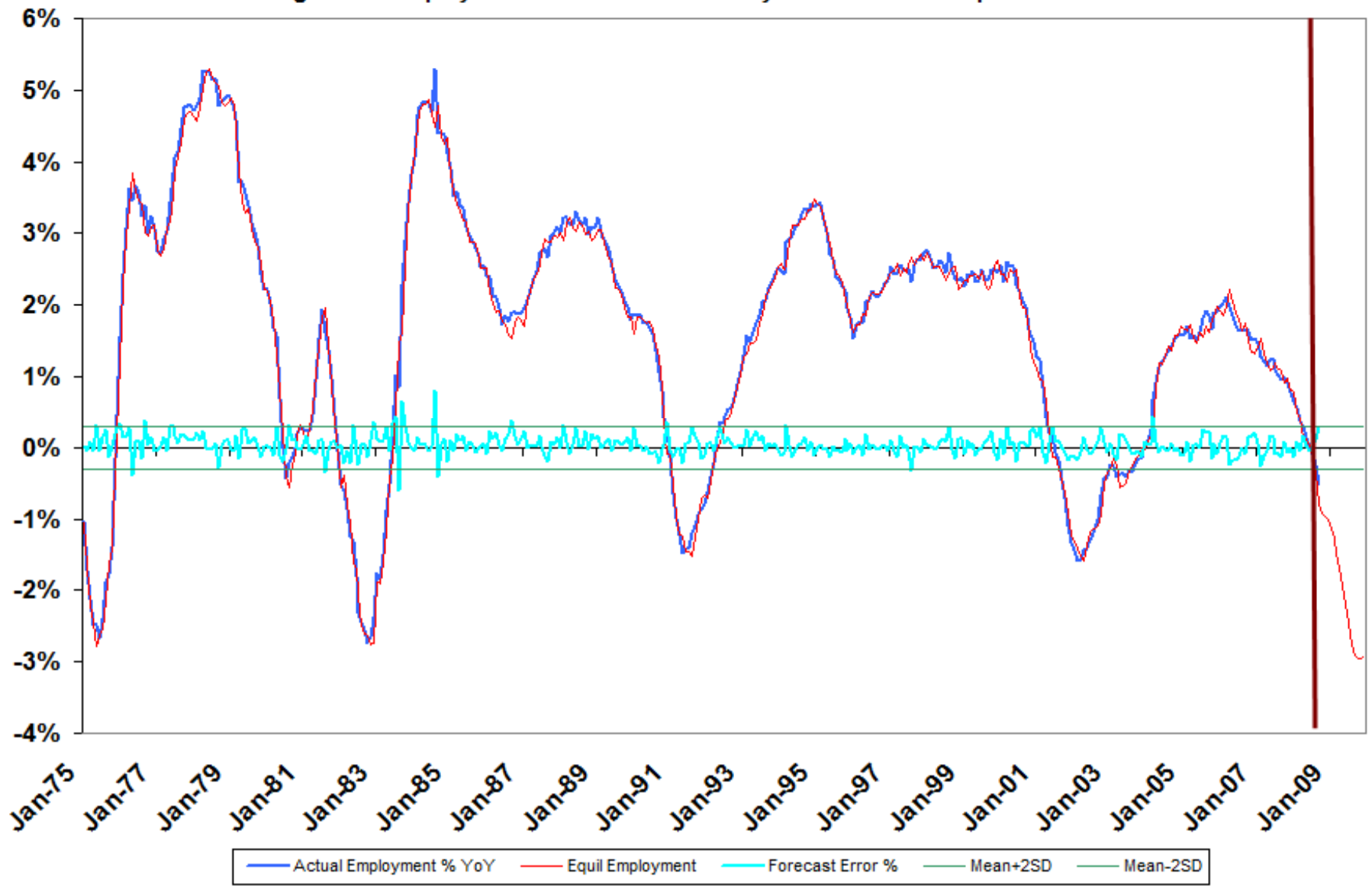


Figure A9: Consumption in the Last Business Cycle

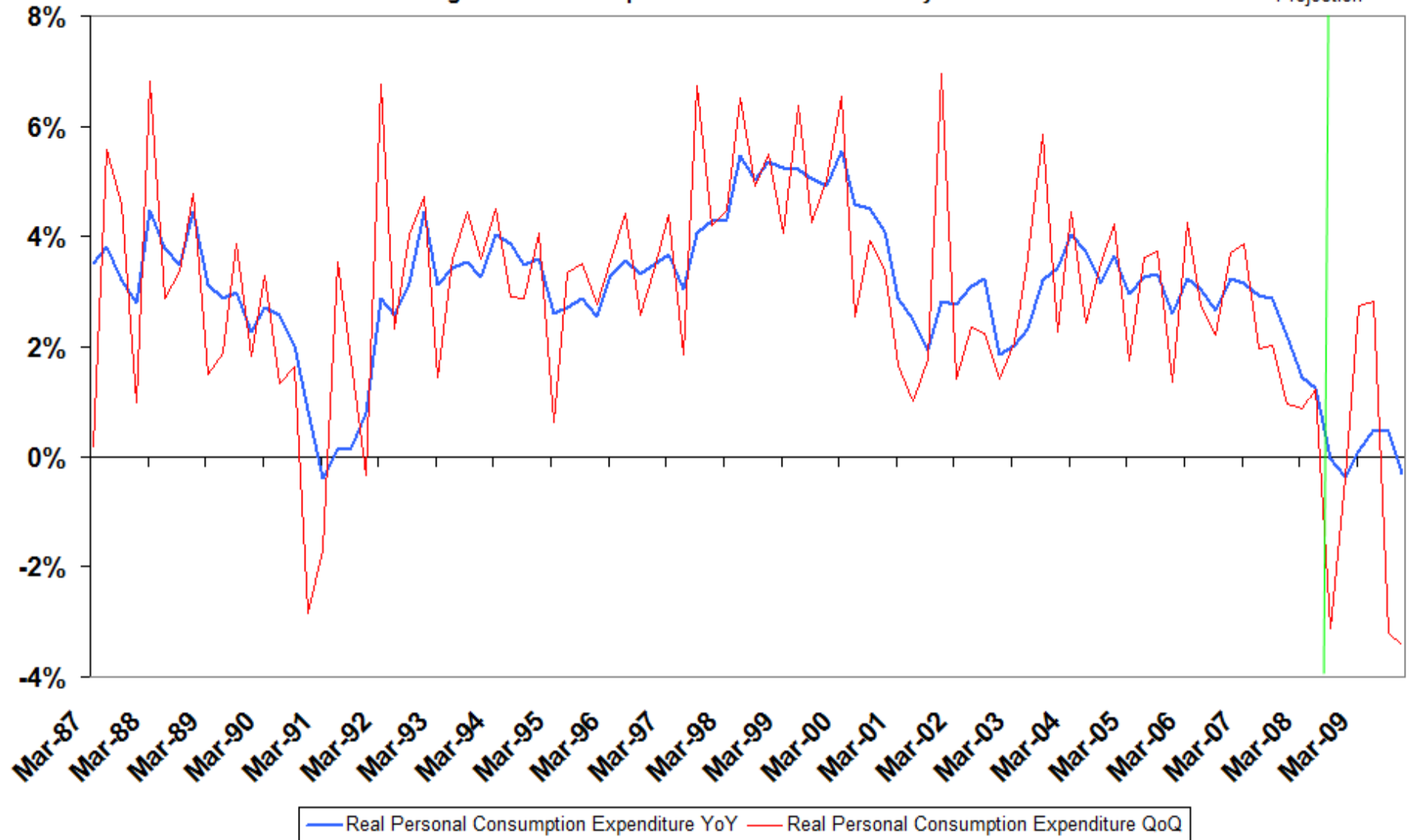


Figure A10: Real Gross Private Domestic Investment

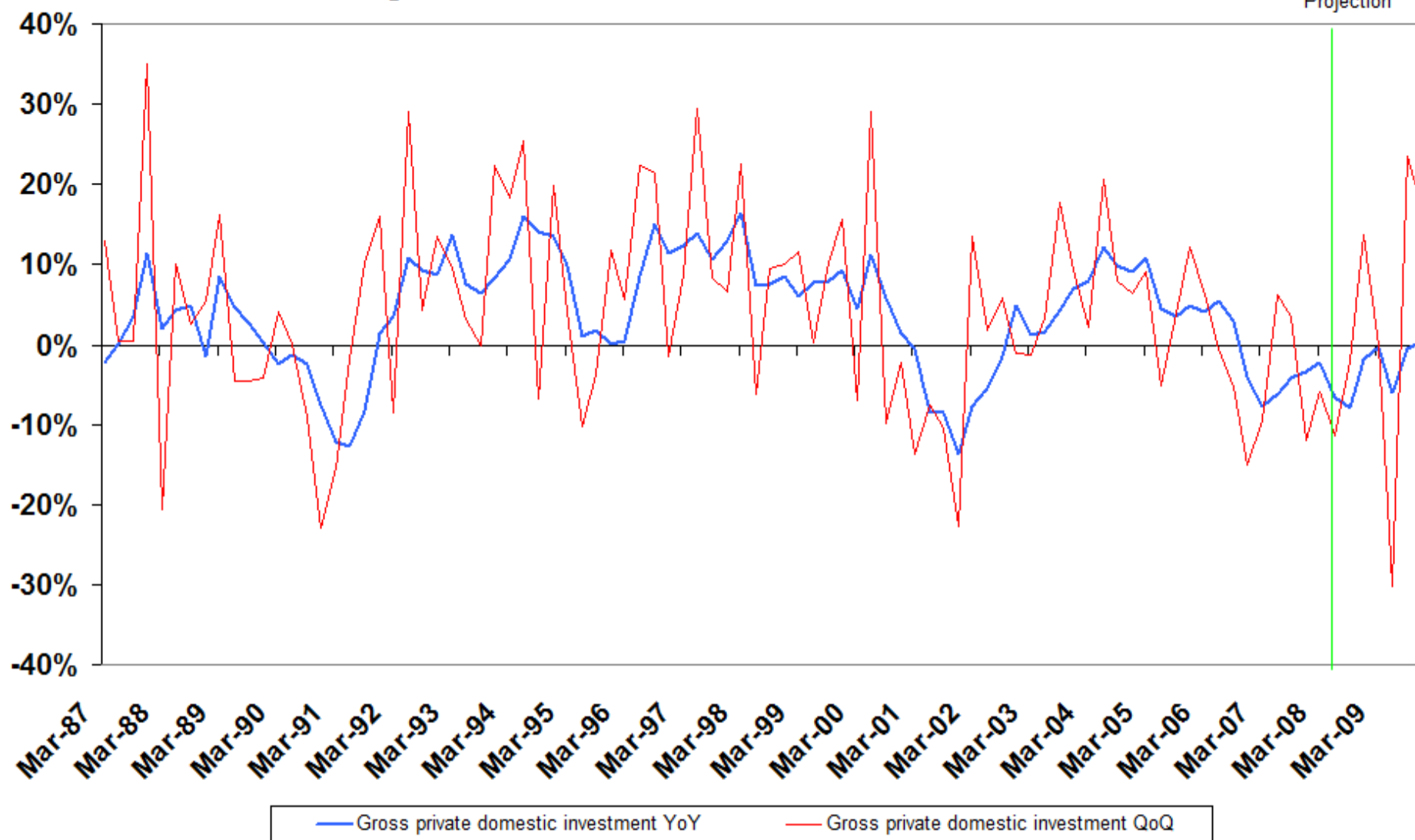


Figure A11: Real Exports of Goods & Services

Projection

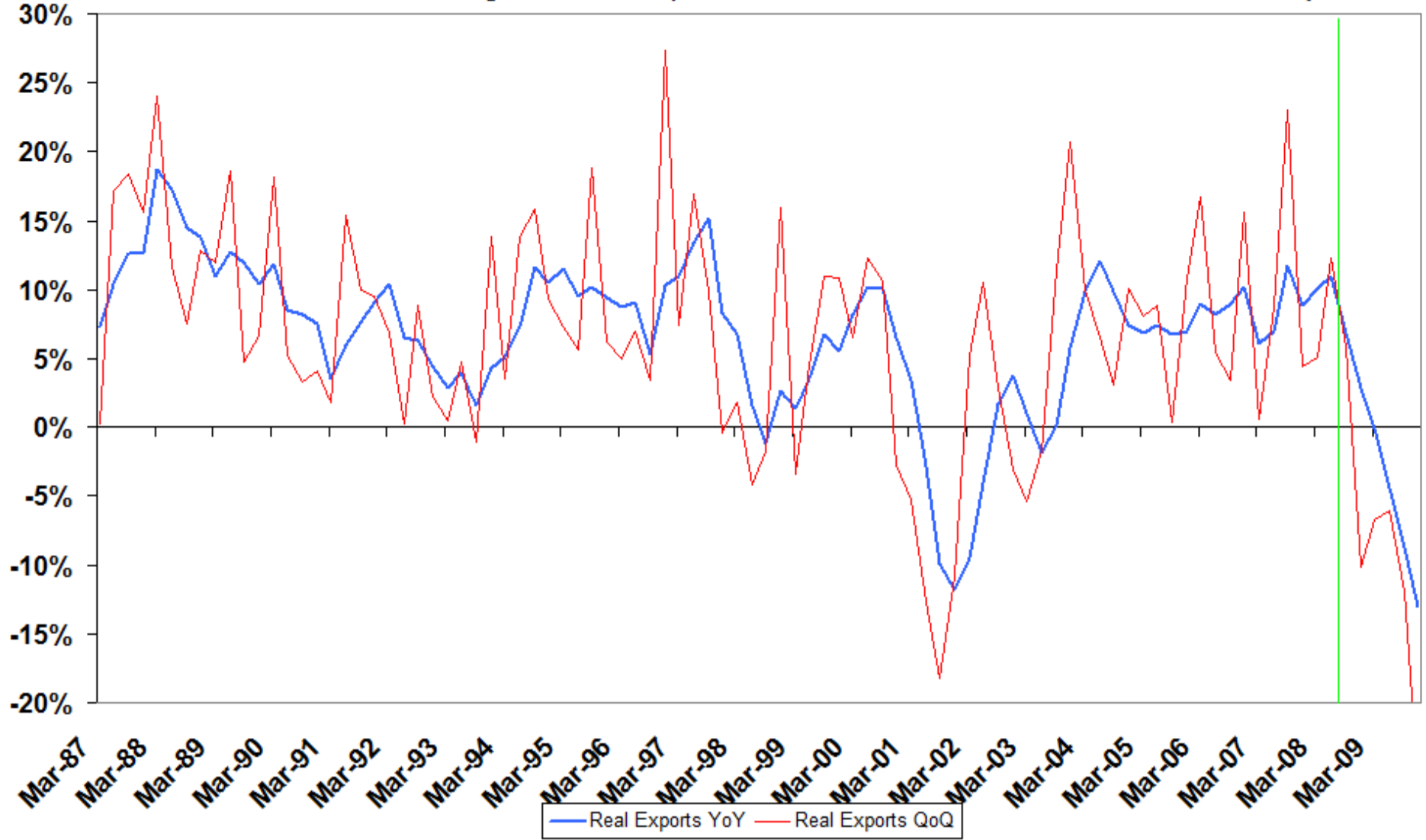


Figure A12: Real GDP in the Last Business Cycle

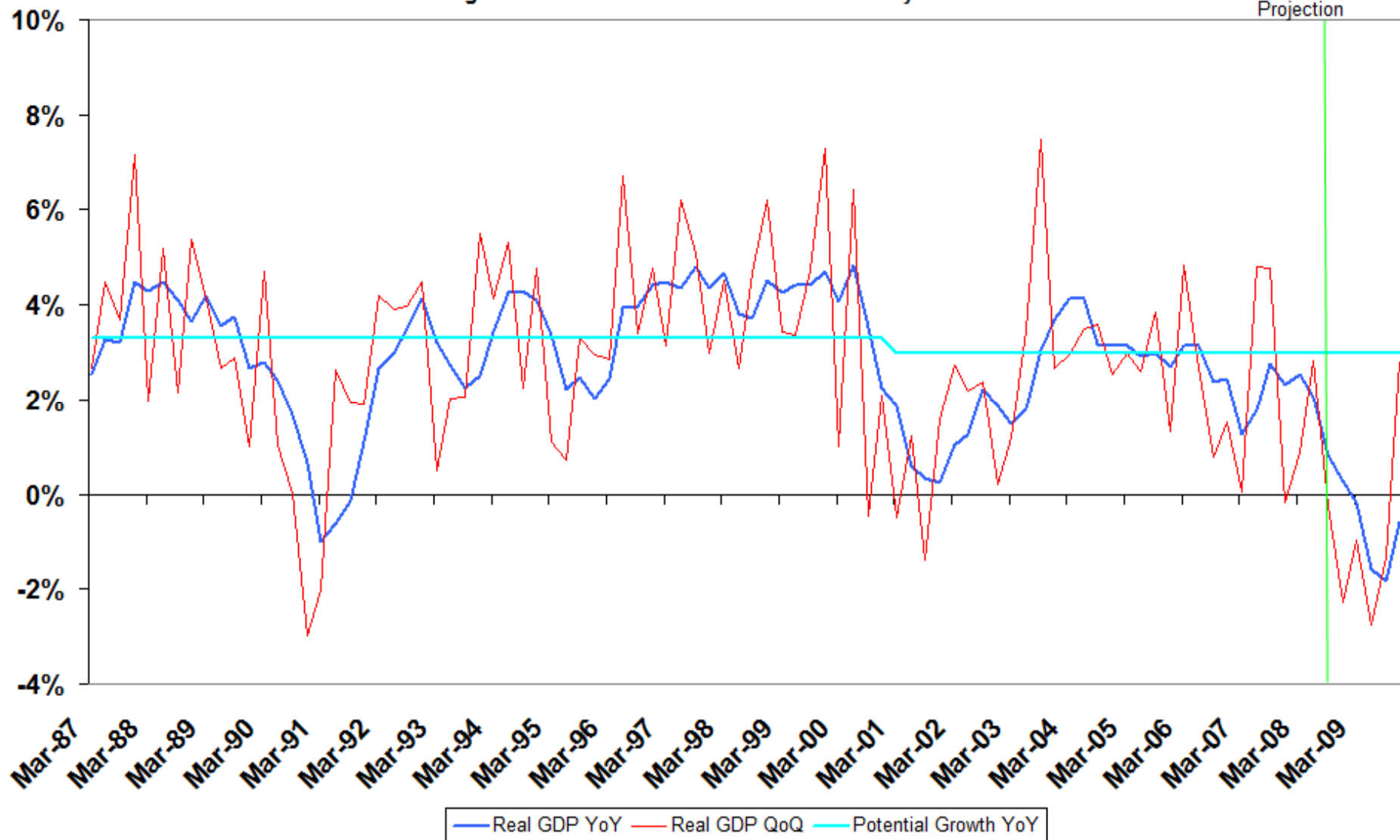
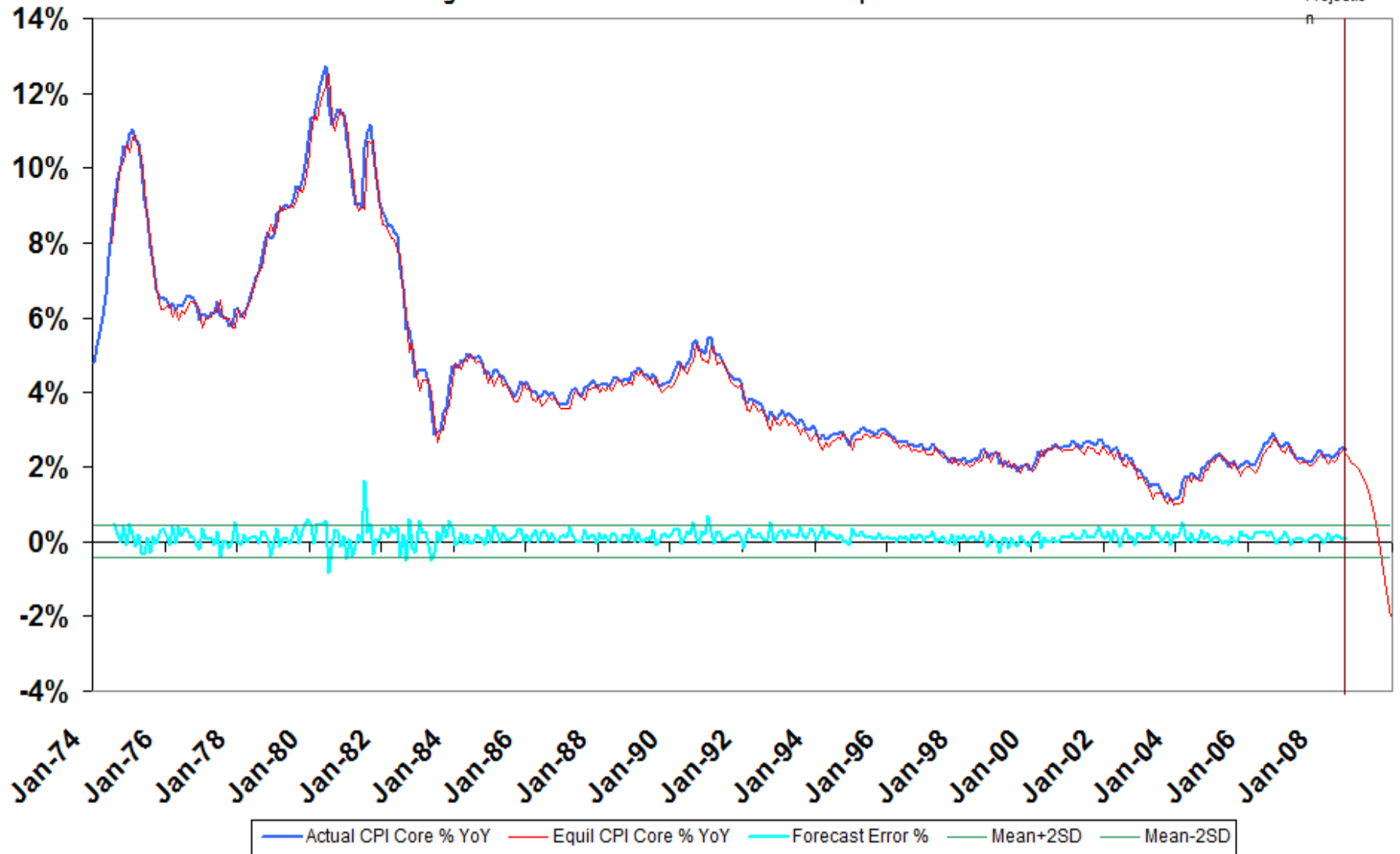


Figure 13: Core CPI Inflation - Short run Equilibrium



The Model

$$Y_t = a_0(G - T) + a_1Y_t + a_2Y_{t-1} + a_3E_tY_{t+1} + a_4[R_t - E_t(P_{t+1}) - RR_t] + a_5NW_{t-1} + u_{1t}$$

$$Y_t^g = a_0(G - T) - q + (a_1 - b_1)Y_t + a_2Y_{t-1} + a_3E_t(Y_{t+1}) +$$
$$a_4[R_t - E_t(P_{t+1})] - (a_4 + b_2)RR_t + a_5NW_{t-1} + u_{2t}$$

$$P_t = d_0 + d_1E_t(P_{t+1}) + d_3P_{t-1} + (d_4)Y_t^g + u_{3t}$$

The Model

$$RR_t = q + f_1[P_t - E_t(P_{t+1})] + f_2 Y_t + f_3 R_t + f_4 Y_t^s + u_{4t}$$

$$f_4 = -f_1 \delta < 0$$

$$R_t = (1 - \gamma_0)[RR_t + E_t(P_{t+1}) + \gamma_1 Y_{t-1}^s + \gamma_2 (P_{t-1} - P^T) + \gamma_3 (NW - NW^T)] + \gamma_0 R_{t-1} + u_{5t}$$

$$NW_t = \Omega_1 R_t + \Omega_2 RR_t + \Omega_3 RC + u_{6t}$$

$$\Omega_1, \Omega_3 < 0, \quad \Omega_2 > 0$$

Figure 2a: Net Wealth



Figure 2b: Output Gap and Potential Output

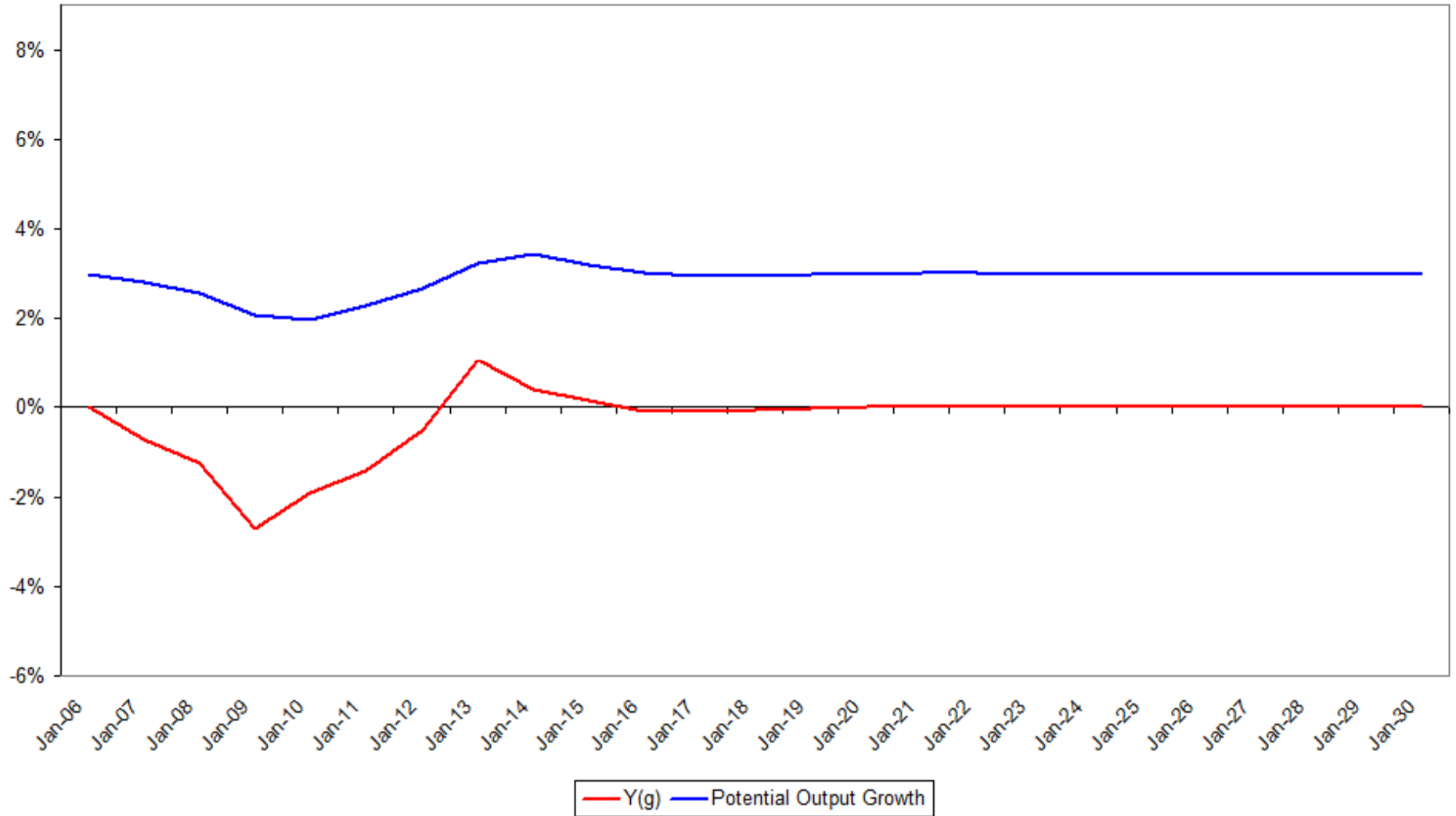


Figure 2c: INTEREST RATE, INFLATION AND NATURAL INTEREST RATE

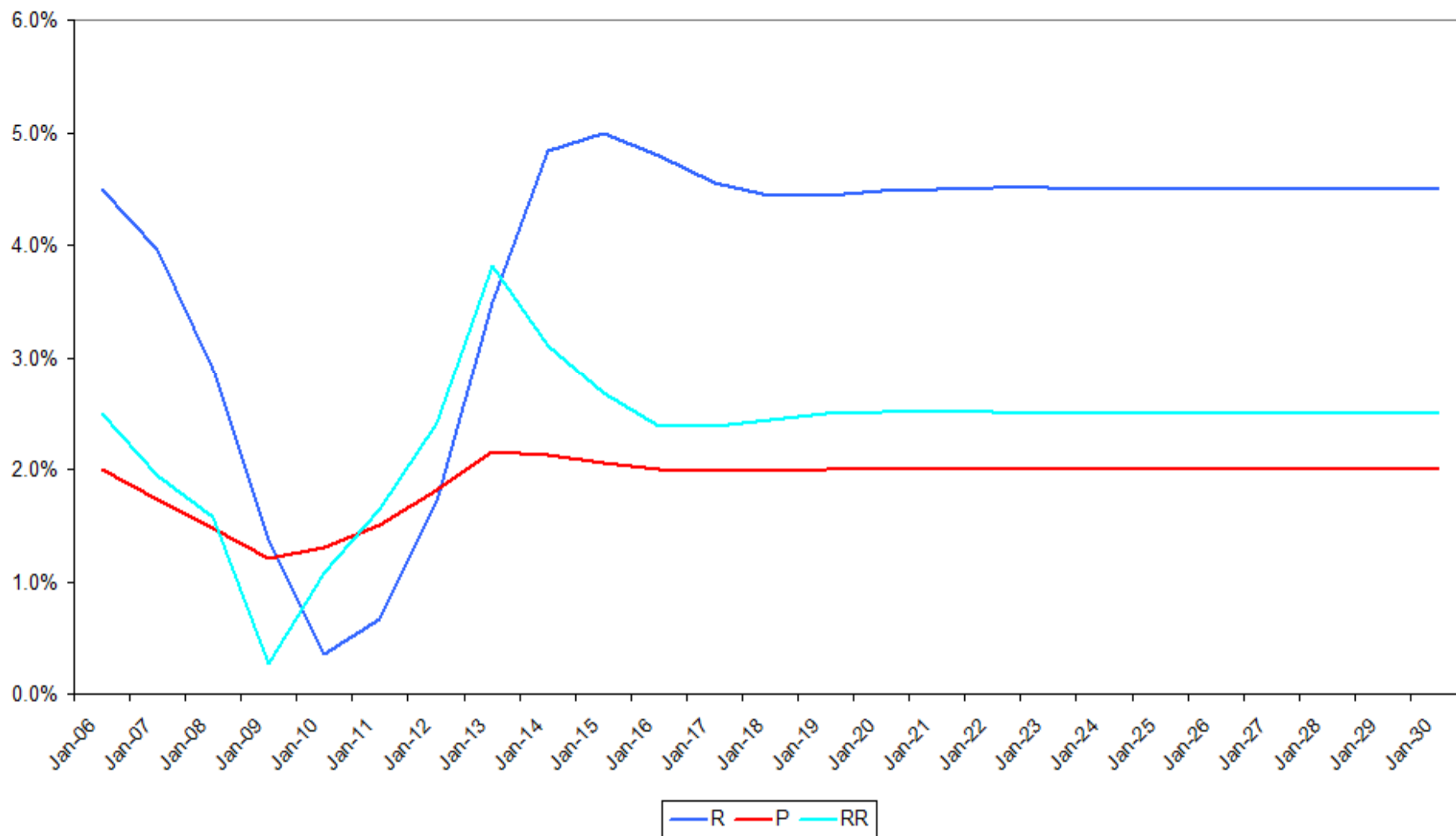


Figure 2d: WAGES & ULC

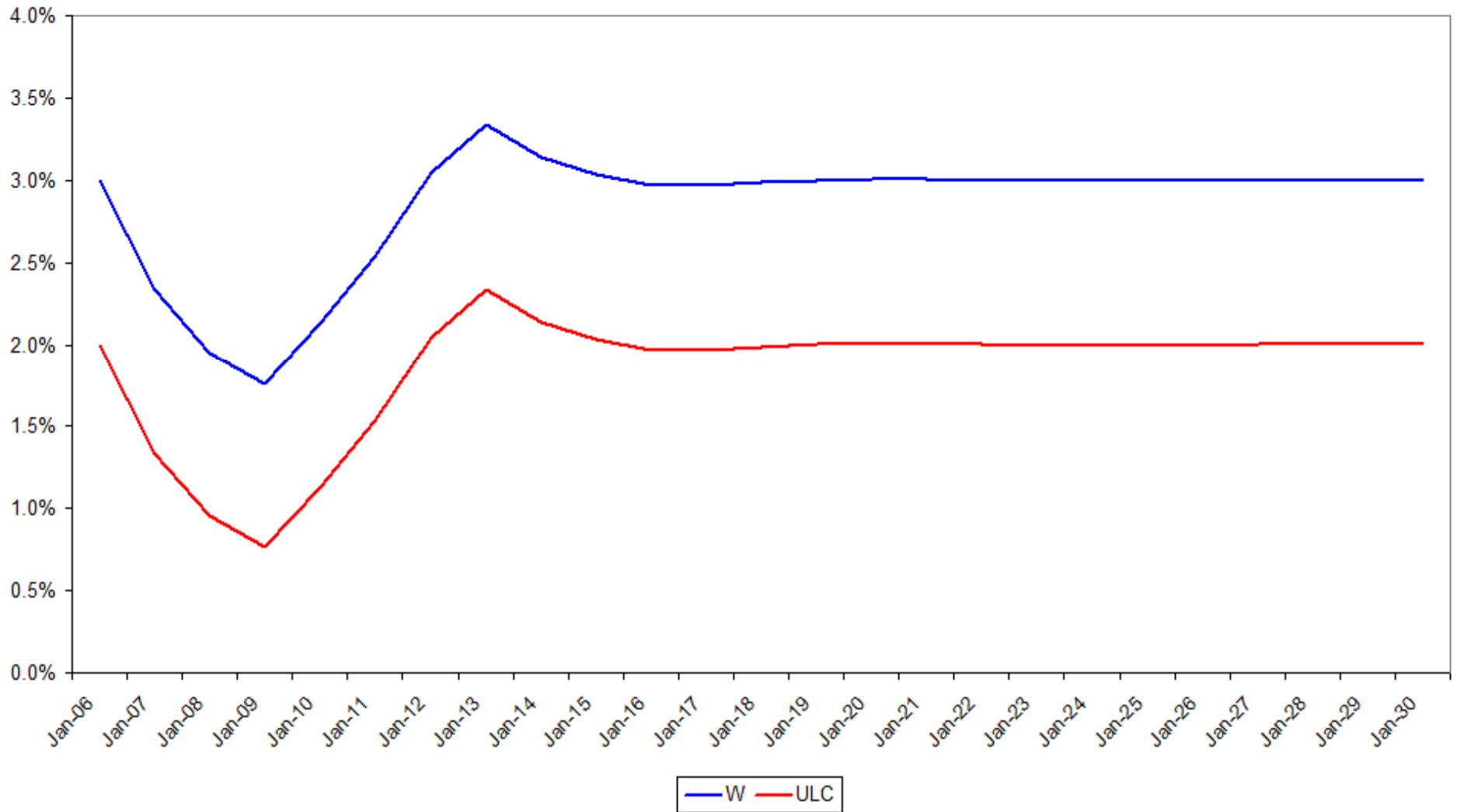


Figure 3b: High Response of Net Wealth to Interest Rates

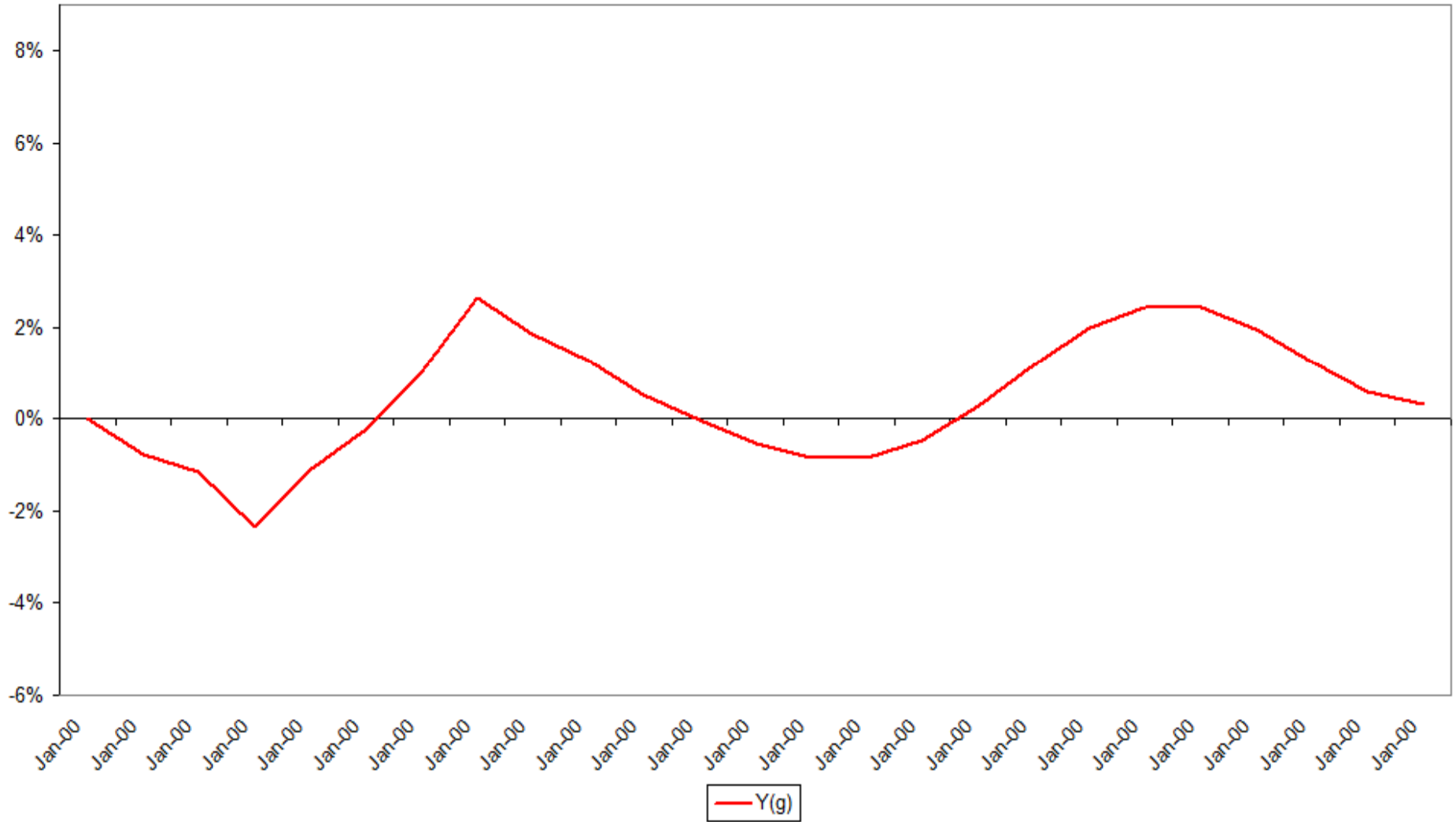


Figure 3c: High Response of Net Wealth to Interest Rates

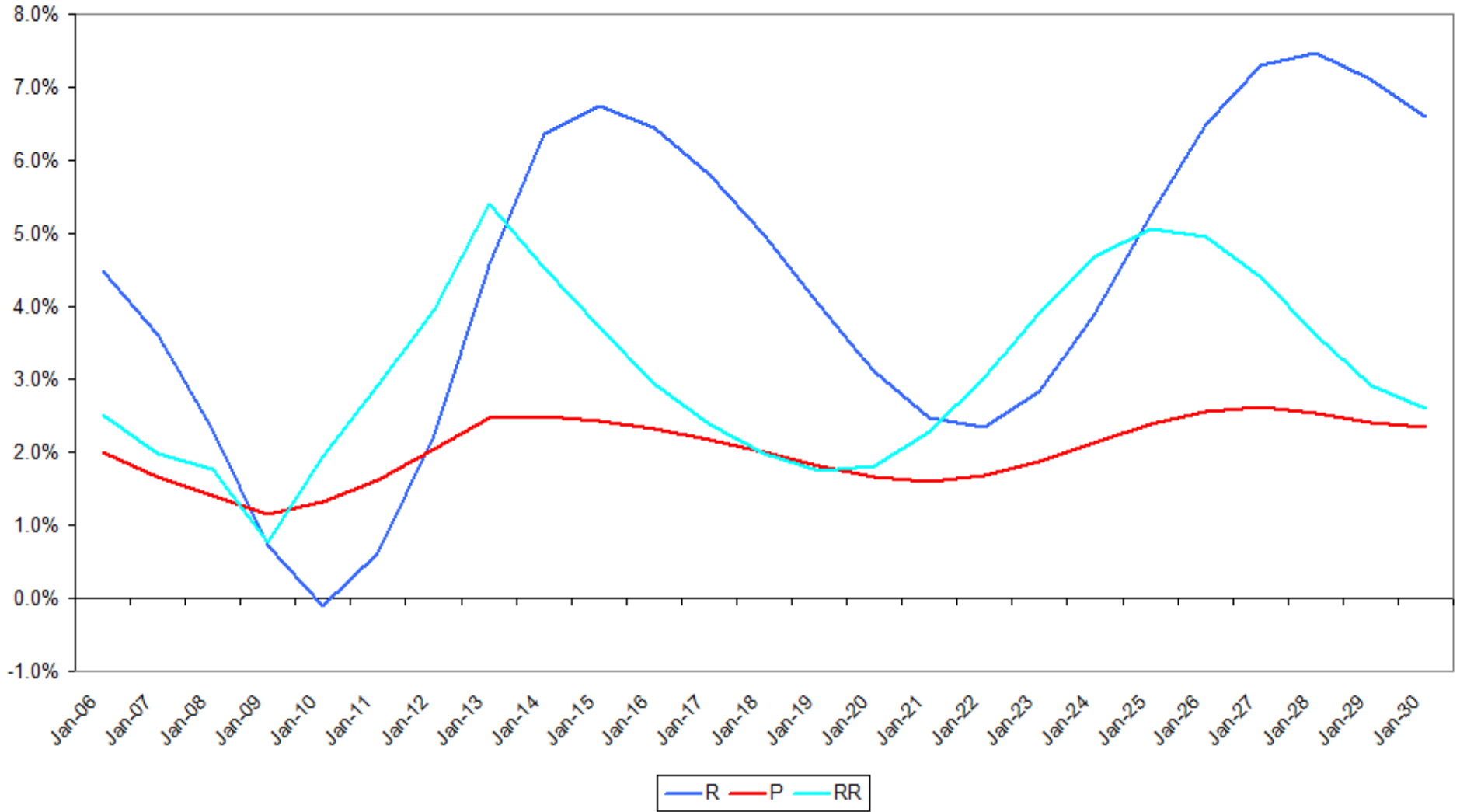


Figure 4a: High Net Wealth Response to Profitability

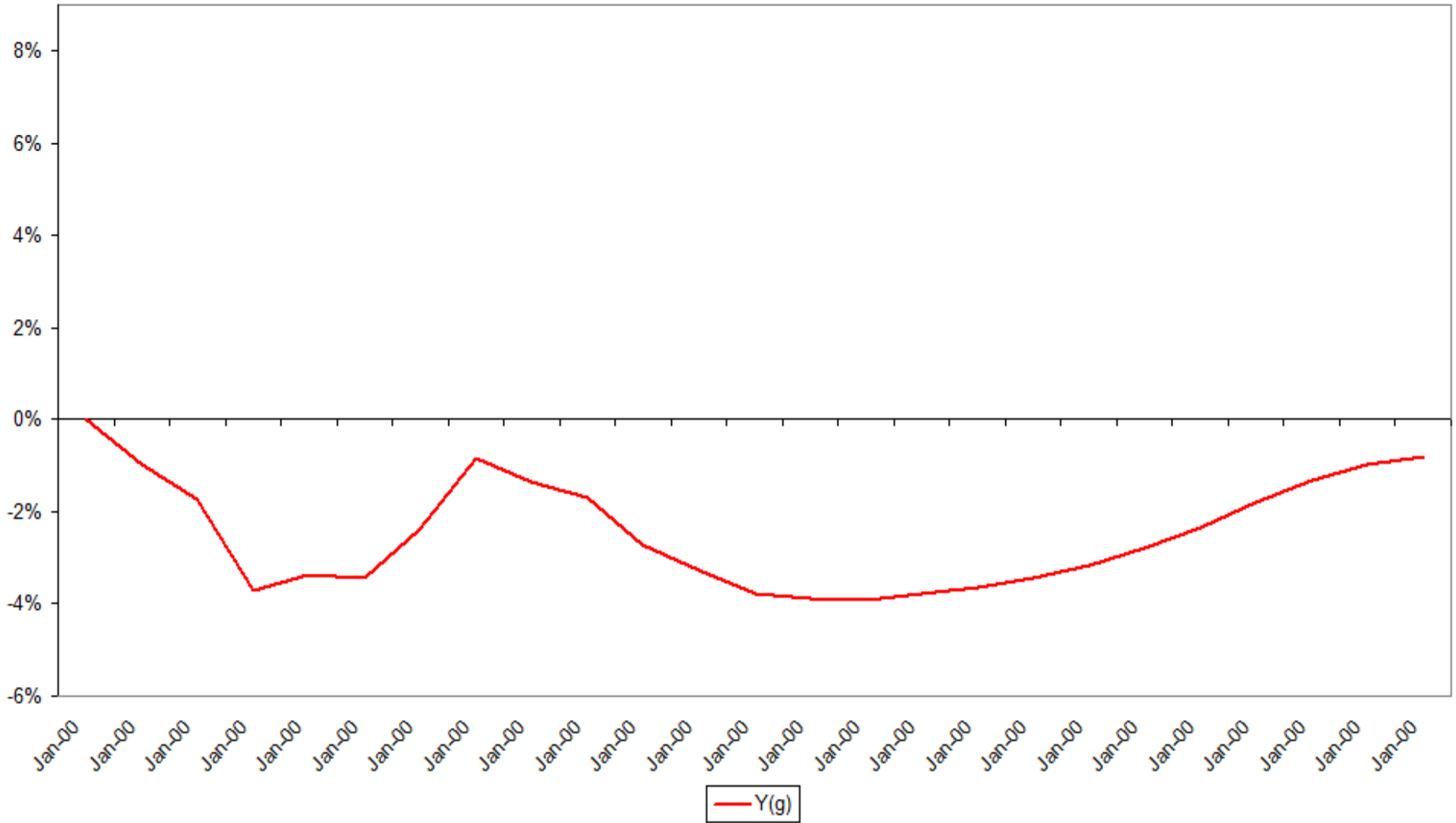


Figure 4b: High Net Wealth Response to Profitability

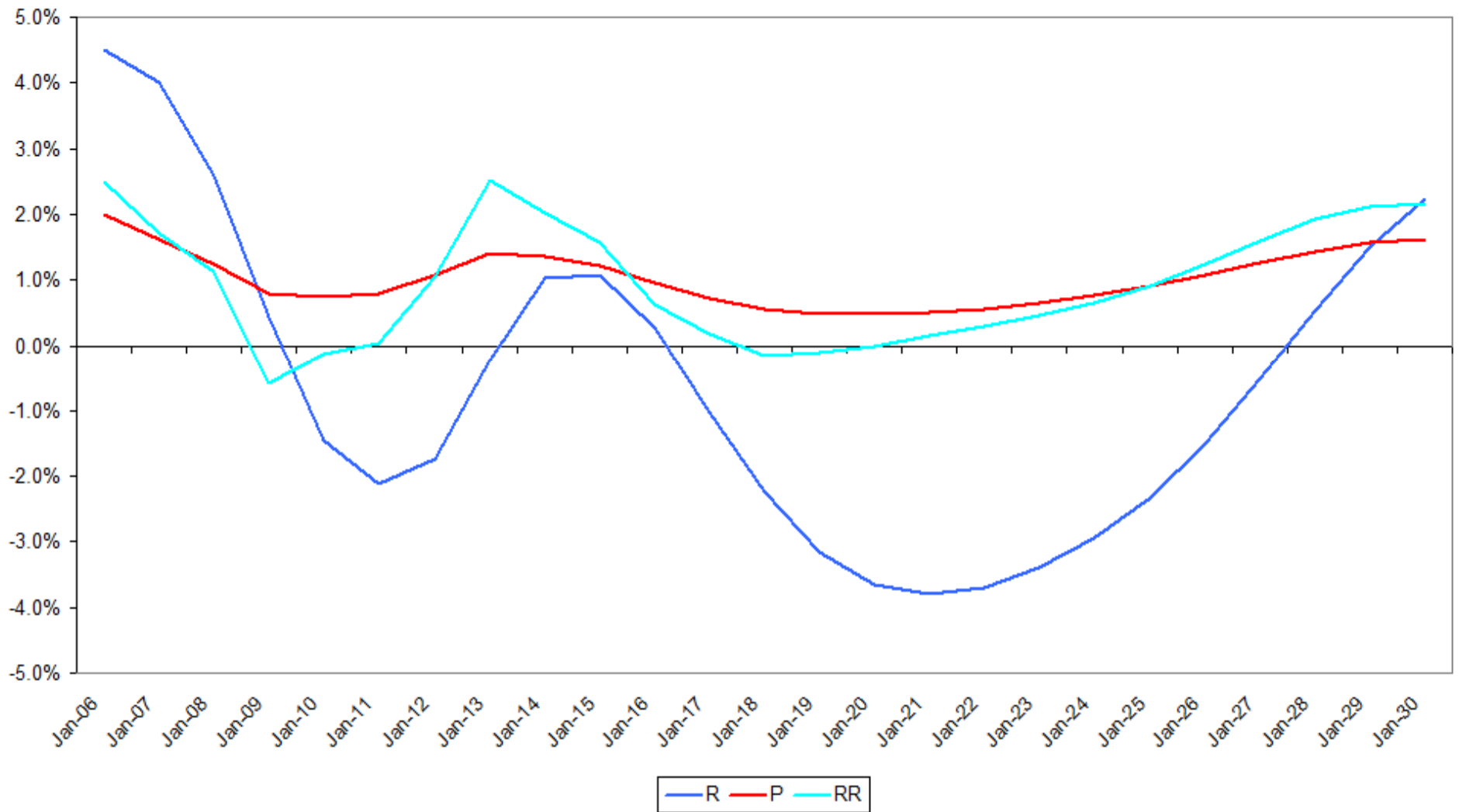


Figure 5a: Net Wealth with wealth targeting

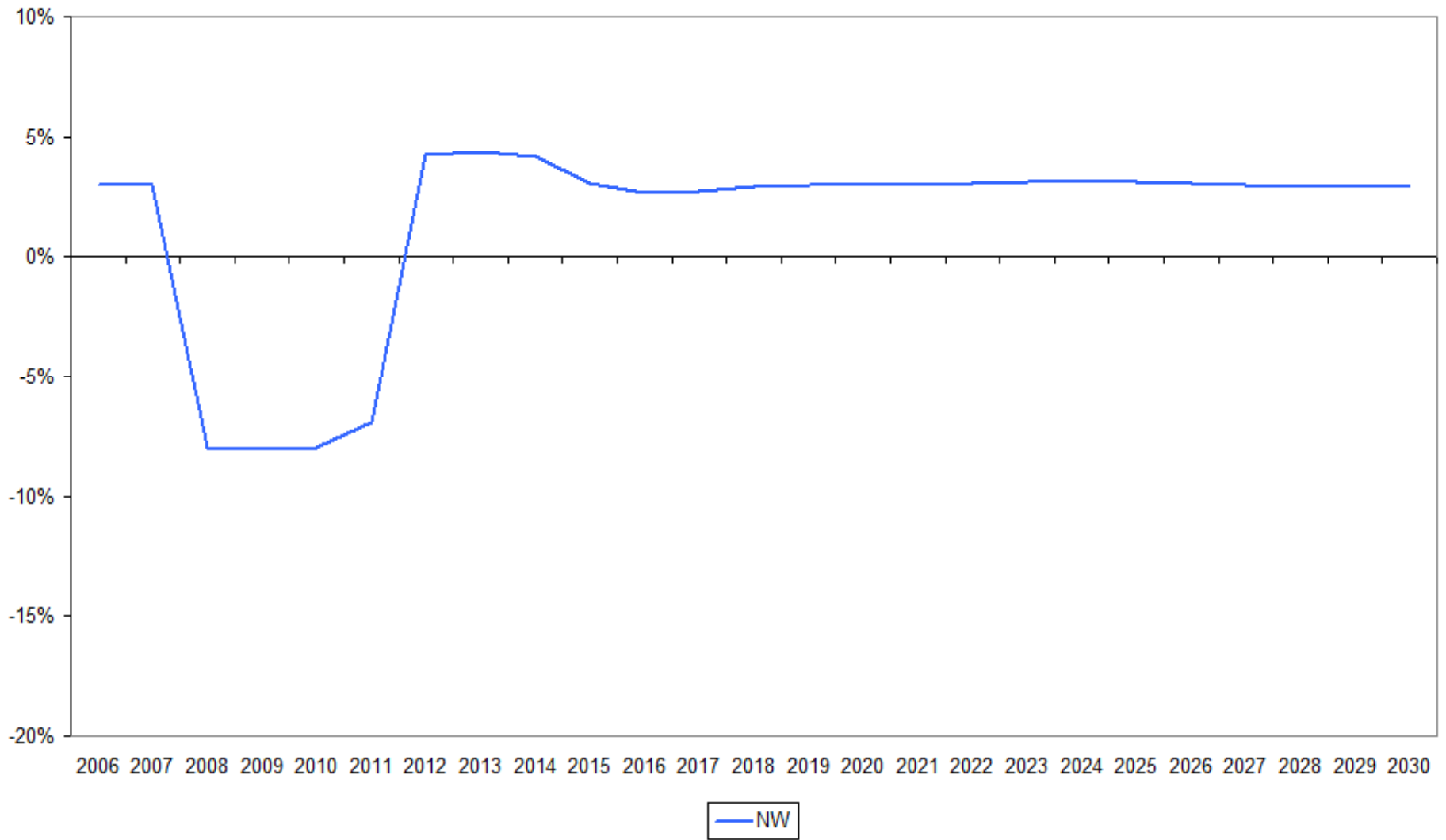


Figure 5b: Output gap with Wealth-targeting

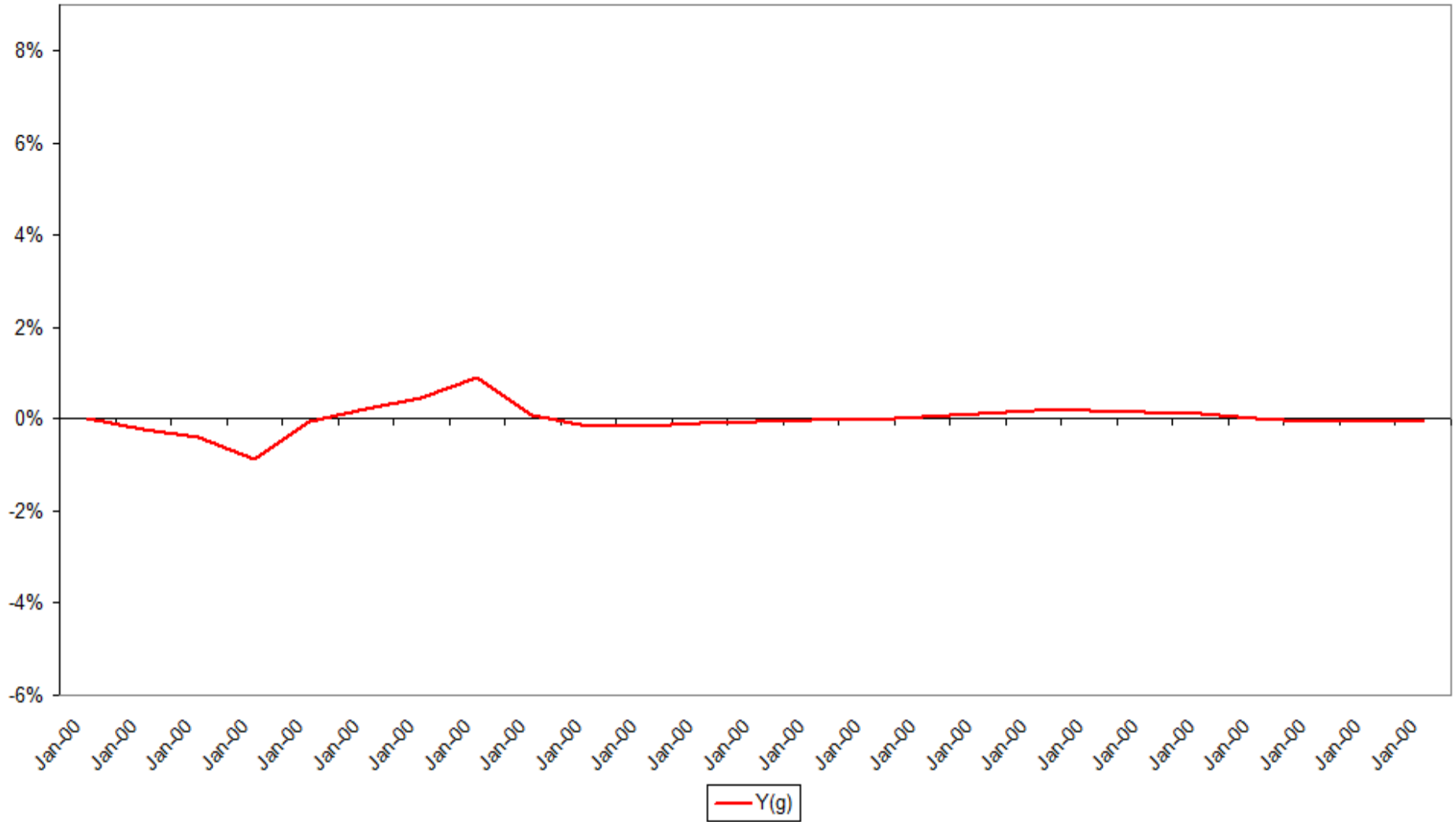


Figure 5c: Interest rate, inflation and the natural interest rate with Wealth-targeting

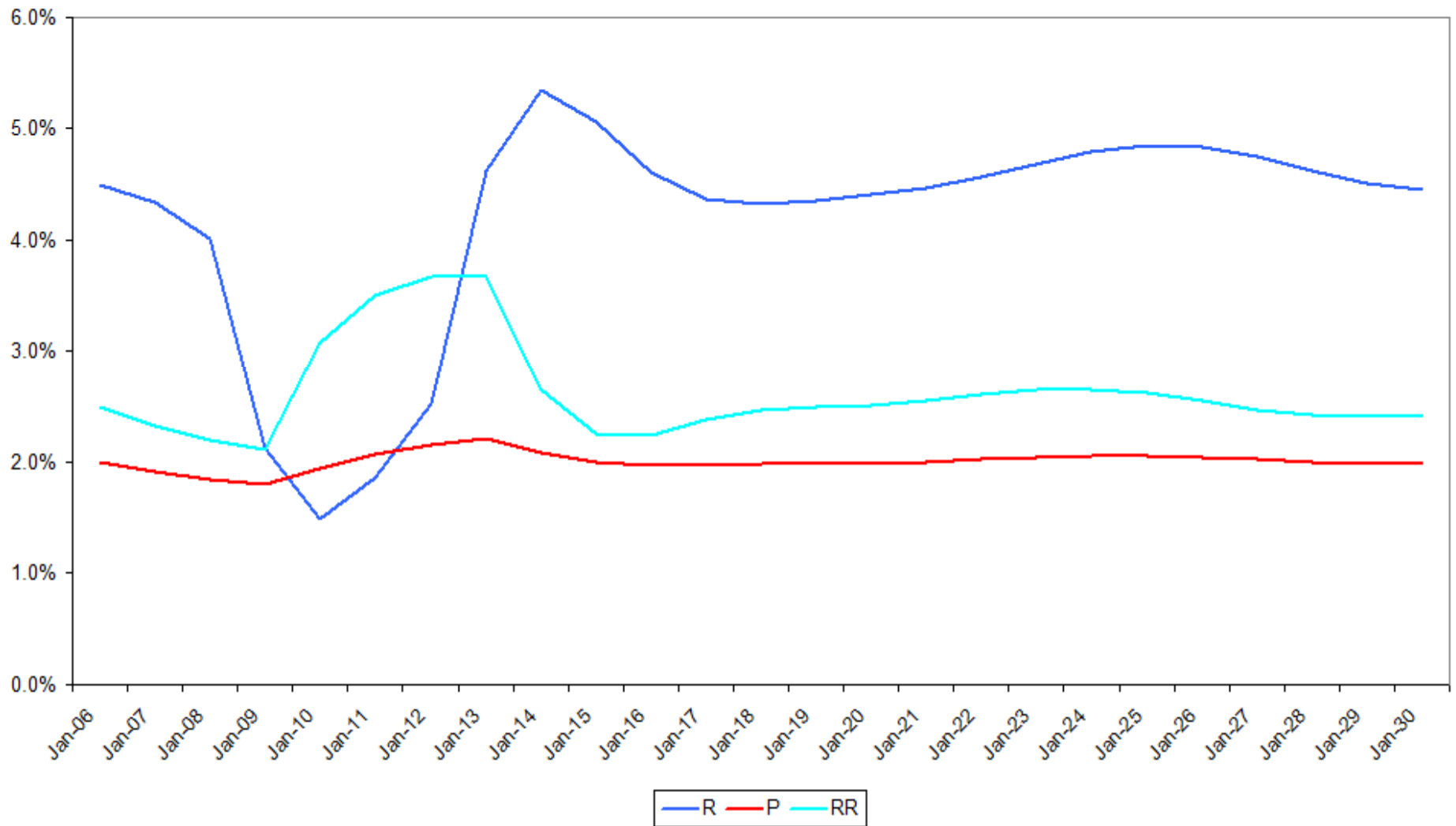


Figure 6a: net wealth with excessive wealth targeting

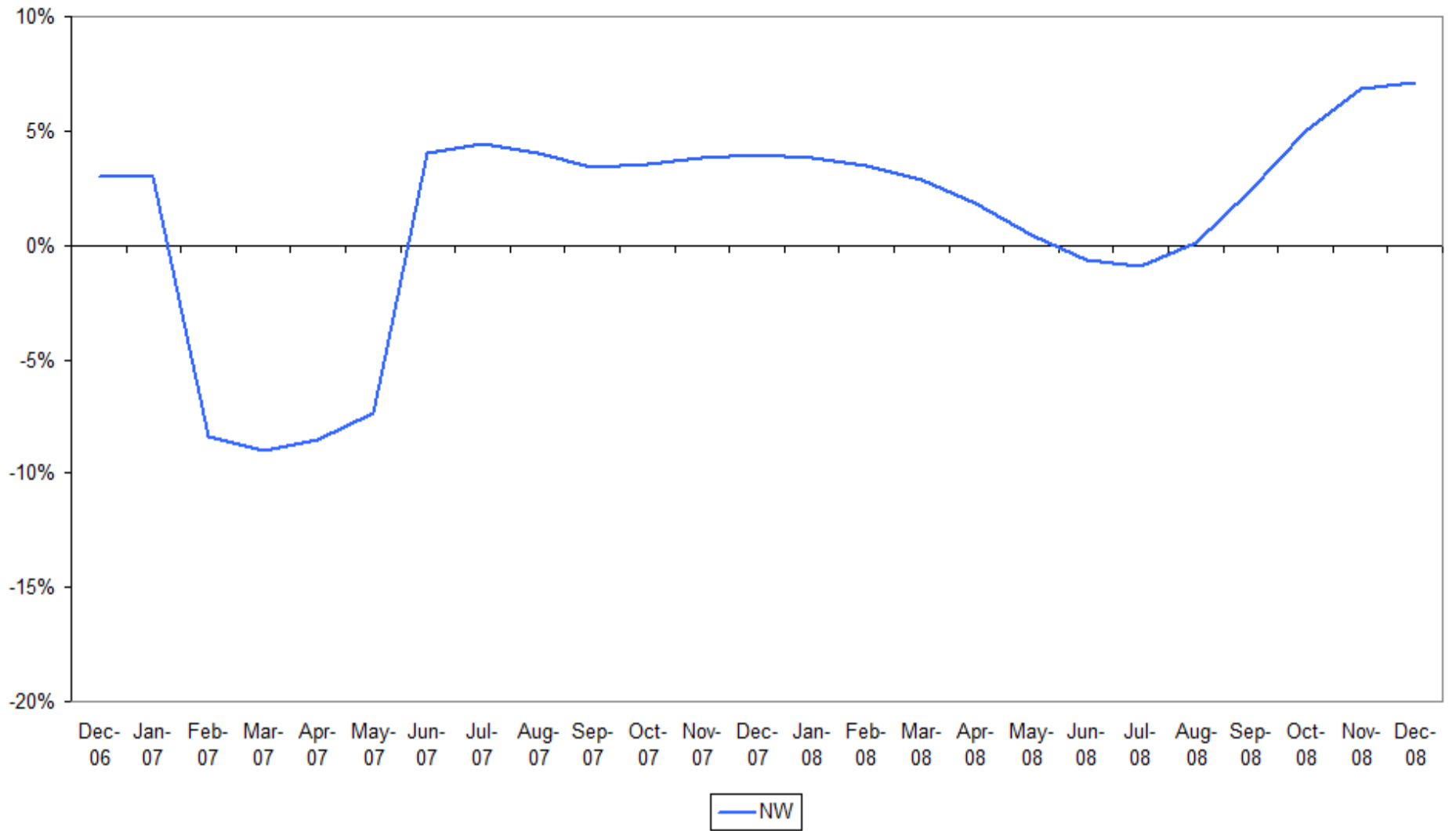


Figure 6b: Output gap with excessive wealth targeting

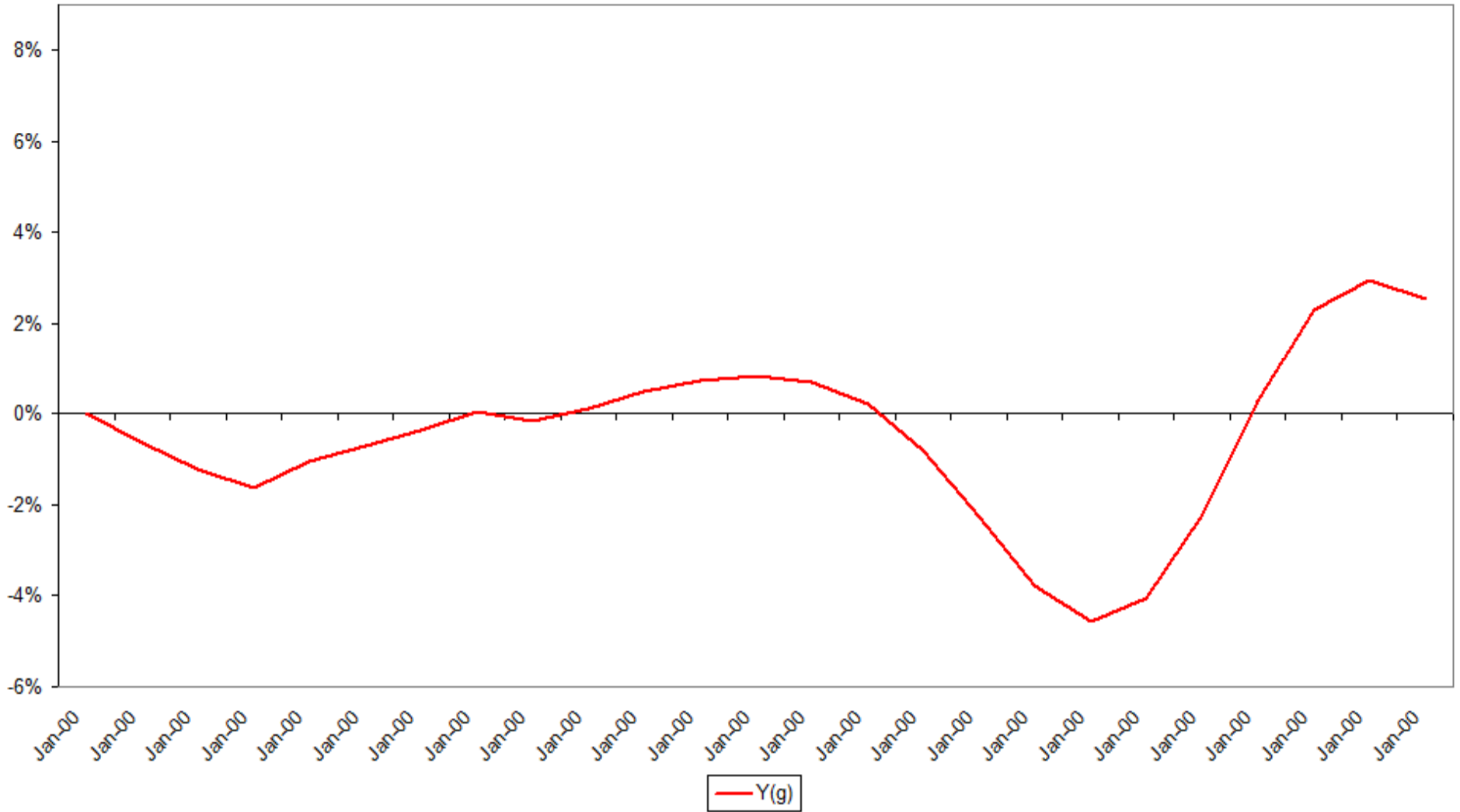


Figure 6c: Interest rate, inflation and the natural interest rate with excessive wealth targeting

