

# The Economics of the Coronavirus Response

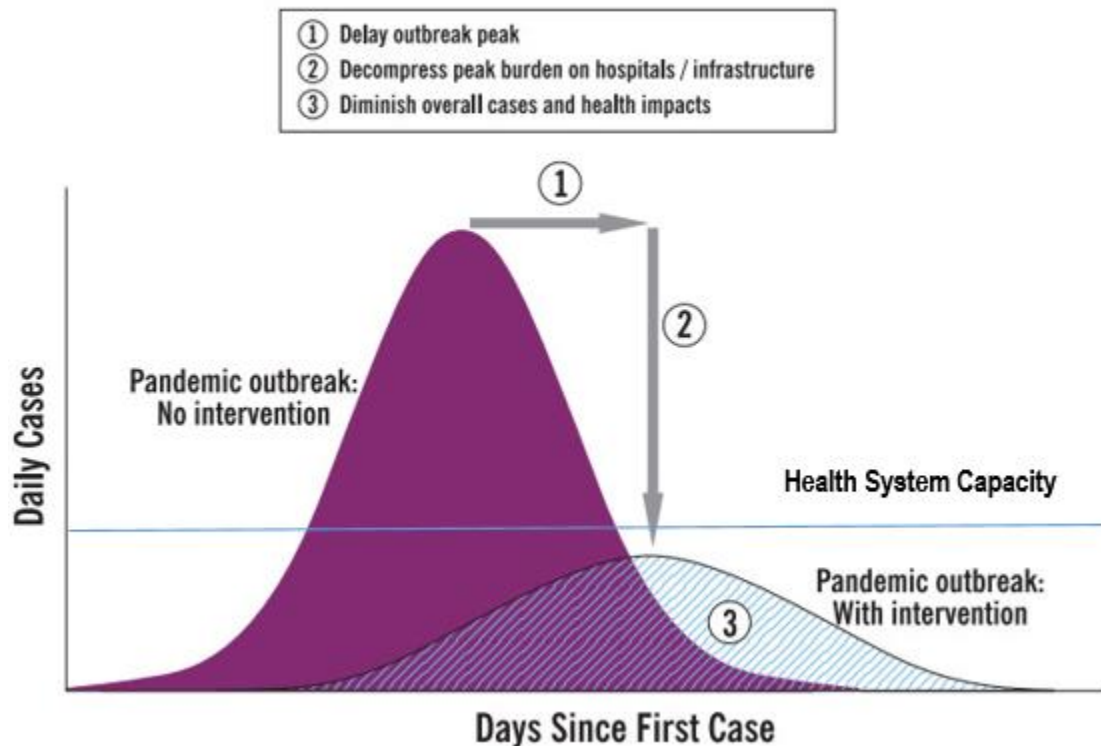
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**Response** = Quarantines, social distancing, cancelling large gatherings, reduced travel, changes in personal habits

## Flattening the Curve



## Expected Economic Effects

- Certain industries hit especially hard: Airlines, hotels, restaurants, etc.
- Supply-chain disruptions: Already experienced following the Chinese response
- Weakened aggregate demand: More uncertainty and market volatility, reduced spending
- Liquidity shortfalls: Can people and employers weather the financial storm? Small businesses most vulnerable.

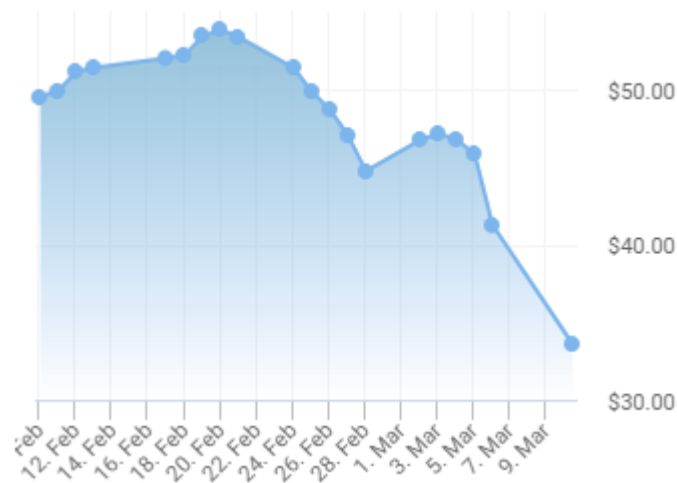
## So Far

- Firms haven't been laying off workers, although hiring seems to have slowed.

- China has been reducing its intervention, Korea might follow.
- Banks are in good financial shape, so the financial system is not at risk.
- Stock markets have taken a hit, e.g. Dow Jones Industrial Average



- Oil prices have plunged, e.g. West Texas Intermediate



### Economic Policy Responses: Keep the disruption from turning into a recession

- Federal Reserve has moved to reduce liquidity problems:
  - Target rate cut by 0.50 percentage points
  - Urging banks to meet the needs of customers (be flexible and work with your borrowers and lenders)
  - Ready to act as lender of last resort and to back financial markets
- Talk about Federal government stimulus
  - Cut in payroll tax
  - Send checks to everyone
  - Industry bailouts