

The Japanese Economy: Growth and Stagnation

Section 1

Instructor	Kazuo Ogawa/ Professor
Office/Building	614/ Main building
Office Hours	Tuesday 15:00-16:00, Thursday 15:00-16:00

【Course Outline / Description】

We analyze the high-growth period in the 1950s and 1960s, the bubble period in the late 1980s and the "lost decades" in the 1990s through 2000s of the Japanese economy from the viewpoint of Japanese financial system. In particular we focus on how the Japanese financial system has evolved in the postwar period and how it has affected the performance of the Japanese economy by way of changing the behavior of banks, firms and households.

Specifically, we examine how the bank's lending and portfolio behavior as well as bank-firm relationship changed after financial liberalization in the 1980s. We also examine how the firm's investment and borrowing behavior was affected when the bank-firm relationship changed. Finally, we analyze the household behavior in terms of consumption and saving choice in the course of a sharp rise and then plummet of the asset prices in the late 1980s to the early 1990s.

We pay special attention to the "lost decades" and describe the characteristics of the "lost decades" and then explain why it took so long to wipe out the aftermath of the "lost decades." We also evaluate Abenomics critically and discuss whether the Japanese economy has finally overcome the long stagnation. Finally, we touch upon the effects of coronavirus disease (COVID-19) on the Japanese economy.

Section 2

【Course Objectives/Goals/Learning Outcomes】

The students will understand how the Japanese economy attained high economic growth in the 1950s and 1960s, why the bubble emerged in the late 1980s and collapsed in the early 1990s and then why the Japanese economy was stagnant so long after the bubble burst in the 1990s and 2000s. The students can explain the causes and consequences of the bubble and the "lost decades" and the roles played by banks, firms and households. Finally, the students will understand the dynamics of the Japanese economy in the postwar period and can explain the future prospects of the Japanese economy. The students will also be able to do simple empirical analysis by collecting and analyzing economic data for themselves.

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Section 3

【Class Schedule/Class Environment, Literature and Materials】

Each student belongs to one of the presentation groups (The number of presentation groups depend on the number of students enrolled in this class). Each presentation group should write two research papers, which are presented in class. Note that the students in the same group share the same score of research paper and presentations, which means that writing research papers and presentations are collaborative work among members.

Assigned readings

(See also the next section of *Textbooks/Reading Materials*.)

1. Introduction to the course

2. Brief history of the postwar Japanese economy (1) Flath, Chapter 4, Ito, Chapter 3
We review the history of the postwar Japanese economy.

3. Brief history of the postwar Japanese economy (2)
We review the history of the postwar Japanese economy.

4. Why did the Japanese save so much in the high-growth period? (1) Flath, Chapter 5,
Ito and Hoshi, Chapter 8
We examine why the Japanese save so much in the high-growth period.

5. Why did the Japanese save so much in the high-growth period? (2)
We examine why the Japanese save so much in the high-growth period.

6. The financial system in the high-growth period Flath, Chapter 14, Ito, Chapter 5
We review the financial system in the high-growth period.

7. The main bank system (1) Hoshi and Kashyap, Chapters 4 and 6,
Ito and Hoshi, Chapter 9
We examine the role of the main bank system.

8. The main bank system (2)
We examine the main bank system.

9. Firm behavior in the high-growth period: Investment and finance (1)
We analyze the firm behavior in the high-growth period.

10. Firm behavior in the high-growth period: Investment and finance (2)
We analyze the firm behavior in the high-growth period.

11. The Japanese labor market in the high-growth period
Ito, Chapter 8, Flath, Chapter 16
We analyze the characteristics of the labor market in the high-growth period.

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12. The causes of high economic growth Saito Chapters 2, 3 and 4
We discuss the causes of high economic growth.
13. The end of high economic growth: Deregulation of financial system
Saito Chapter 7, Hoshi and Kashyap Chapter 7
We discuss why high economic growth came to an end.
14. The end of high economic growth: Deregulation of financial system (2)
We discuss why high economic growth came to an end.
15. Mid-term examination
Review the handouts distributed so far.
16. The asset bubble (1) Ito and Hoshi, Chapter 14
We discuss why the asset bubble emerged.
17. The asset bubble (2)
We discuss why the asset bubble emerged.
18. Bank's behavior in the bubble period (1)
We analyze the bank's behavior in the bubble period.
19. Firm's behavior in the bubble period
We analyze the firm's behavior in the bubble period.
20. Household's behavior in the bubble period
We analyze the household's behavior in the bubble period.
21. The bubble burst and the Lost Decade (1) Ito and Hoshi, Chapter 14
We discuss why the bubble burst and the Japanese economy plunged into the Lost Decade.
22. The bubble burst and the Lost Decade (2)
We discuss why the bubble burst and the Japanese economy plunged into the Lost Decade.
23. Research presentations (1)
24. Research presentations (2)
25. Research presentations (3)
26. Bank's behavior in the Lost Decade
We analyze the bank's behavior in the Lost Decade.
27. Firm's behavior in the Lost Decade
We analyze the firm's behavior in the Lost Decade.

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28. Household's behavior in the Lost Decade

We analyze the household's behavior in the Lost Decade.

29. Policy actions: way out of the Lost Decade

Ito and Hoshi, Chapter 14

Hausman, J.A. and J.F. Wieland, "Overcoming the Lost Decades? Abenomics after Three Years," *Brookings Papers and Economic Activity*, (Fall 2015), pp.385-413.

We discuss the policy actions taken for way out of the Lost Decade.

30. Final examination

Review the handouts distributed so far.

【Textbooks/Reading Materials】

Reading materials will be available on *the course Blackboard*. In addition, handouts will be made available in the class, as appropriate.

Reference books

1. David Flath, *The Japanese Economy*, 3rd edition, Oxford University Press, 2014.
2. Takatoshi Ito, *The Japanese Economy*, 1st edition, MIT Press, 1997.
3. Ito, Takatoshi and Takeo Hoshi, *The Japanese Economy*, 2nd edition, MIT Press, 2020.
4. Mitsuo Saito, *The Japanese Economy*, World Scientific Pub Co Inc., 2000
5. Takeo Hoshi and Anil Kashyap, *Corporate Financing and Governance in Japan: The Road to the Future*, MIT Press, 2004.

Section 4

【Learning Assessments/Grading Rubric】

Evaluation criteria

Final exam 30%

Midterm exam 30%

Writing assignment and presentation 30%

Discussions in class 10%

Section 5

【Additional Information】