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ABSTRACT:
The events of the Great Recession demonstrate that the world needs more tools to understand how to maintain economic stability. One of the main factors involved in this recession was safe assets, which are debt-based investments that are not expected to lose value (Caballero 1, Gorton 1). Due to their influential role in the economy, it is important to research how safe assets impact the US economy. Although sufficient research exists about the shortage of safe assets, few works discuss their explicit relationship to economic stability indicators. This leads to the research question: **What is the relationship between the availability of safe assets and economic stability, specifically Gross Domestic Product and Investment?** To investigate this question, a quantitative method will be used in the form of statistical analysis on the 75-year data on the total amount of safe assets and their average prices, US investment, and US GDP. The results of this mathematical evaluation will be used to construct a scholarly paper that details the relationship of safe assets and economic stability to answer the research question. The findings will allow economists and the public to understand this relationship and make decisions on how to maintain economic stability.

(Word Count: 196)
INTRODUCTION:

The economic crisis of the late 2000s is a major event in US history that has created a lasting impact on the economic climate. Past research focuses on understanding the causes of The Great Recession and the housing crisis that caused widespread unemployment and economic turmoil for many. Now, researchers have evolved to investigate the modern economic climate and its components, such as investment, Gross Domestic Product (GDP), inflation, unemployment, consumption, and public debt. An understanding of current economics will provide greater control of the economy to aid recovery and prevent recessions.

From a historical perspective, it is important to understand the economy and its tendencies in both times of economic prosperity and recession. Although there are natural economic fluctuations, learning more about the economy can give way to an understanding of how best to utilize fiscal and monetary policy to prevent future recessions (Blanchard). Furthermore, although economies evolve over time, macroeconomics is made up of the same components and thus has inherent factors that are the same over time. Therefore, my research seeks to look through a historical lens and use past economic data and events to better understand and model the future.

This research proposal seeks to investigate this research question: What is the relationship between the availability of safe assets and economic stability, specifically Gross Domestic Product and Investment? This research strives to understand how the economic factors of investment and GDP interact with safe assets to gain knowledge of the relationship. The goal of understanding this relationship is to help macroeconomists as well as policymakers understand the implications of safe assets on economic stability to help prevent economic recessions. Furthermore, an understanding of this relationship can help the general public, who often do not understand economic policy, make sound decisions with investment and understand their role in keeping the economy stable.

BACKGROUND:

This investigation has analyzed both scholarly works on the Great Recession as well as recent works on economic recovery. Financial crises usually follow increases in credit, meaning that more money is lent, leading to the production of debt assets (Gorton 24). In regards to the Great Recession, many works discussed the role of low-quality loans, such as Liar's Loans, debt, and mortgage-backed securities as reasons for the mass foreclosures and economic instability (Adrian, Black, Caballero, Gorton). This led to an interest in safe assets because people wanted assets that were almost guaranteed to hold their value. As defined by Richard Caballero, safe assets are a debt based investment that will retain value even in economic downturns (1). These investments are essential to the economy because there needs to be means of investment that are investments that are almost guaranteed to retain their value of over time (Gorton 2).

Caballero et al. investigated the shortage of safe assets in the current economic environment, finding that the economy is in a safety-trap, which increases financial fragility in times of economic distress. There has been a contraction of safe assets despite the fact that there has been a higher demand for safe assets due to distrust of Wall Street investments.
stemming from the financial crisis (Carney). The shortage of safe assets had led to an increase in the price of safe assets to move back to market equilibrium, where supply meets demand (Caballero et al. 30). However, it is important that the interest rate on safe assets does not fall further to avoid a greater shortage of safe assets (Caballero et al. 43).

Also, Gorton adds that safe assets are fundamental to the fiscal health of an economy, but can still fail despite being safe (2). He also discusses the pricing of safe assets. Safe assets are priced higher using premiums due to their expected liquidity. Due to increased demand, the prices rise in times of liquidity shortage, meaning that when safe assets are less available, the premium rise and the interest rate is lower (Gorton 20). He also discussed the impact of credit booms on the economy, noting that an increase in credit leads to higher investment and output, but eventually leads to financial crises (Gorton 25).

These works provide a great understanding of the current state of safe assets in regards to the macro-economy. However, what these works are missing is a discussion of how the availability of safe assets impacts certain imperative aspects of the economy. As safe assets are a form of investment, it is essential to understand how the accessibility of safe assets impacts the level of investment in the US. Furthermore, in the IS-LM model of the economy, investment is a component of Gross Domestic Product. As discussed by Gorton, credit is important to increases in output and economic growth. Therefore, this gap in research should be investigated.

METHODS:

In order to answer this question, this research needs to establish the relationship between safe assets and financial stability. To understand the impact that safe assets have on economic stability, this research chooses to investigate investment, which is directly tied to the purchase of assets, and GDP, which provides a measure of the overall economy. A quantitative research method will be employed to discover this relationship as it will provide definite results on the relationship using mathematical analyses of data. A quantitative method would not provide the concrete data necessary to answer this question.

The method employed involved needing historical data on safe assets, investment, and GDP in the United States. The data needed for investment will display the estimated level of investment in the US over the last 75 years, which is a long enough period to truly see the relationship. Furthermore, the data for GDP will involve the Gross Domestic Product of the US for the past 75 years. The data for safe assets is slightly less concrete. There will need to be estimated data on the number of safe assets in the US economy in dollars for the past 75 years. It is also important to have data on safe asset pricing over the last 75 years as the price communicates information about the supply and demand for safe assets (Caballero et al. 30). With this data, regressions and statistical analysis will be completed to establish the relationship between safe asset availability and GDP and investment. The data will provide measures of how strong these relationships are and what levels of safe assets and their pricing maximizes investment and GDP.

EXPECTED RESULTS:

The standard method of displaying research in economic research is through writing. Thus, I plan to display the results of this research in a scholarly paper. This paper will detail the
relationship between safe assets and economic stability by containing the findings of the statistical analysis of the data. Thus, the goal of the paper will be to describe the findings through words and also graphs, which are important to visually convey the results. The paper will also utilize the mathematical findings to discuss the implications of the relationship between safe assets and investment and GDP to accomplish the goal of helping professionals and the general public alike make decisions regarding economic decisions. This discussion will use the relationship established to explain how economic stability relates to safe assets and what should be done to maintain stability.

CONCLUSION:

Overall, an investigation of safe assets and its impact on economic stability is beneficial for economists as well as the general public to understand the economy. Safe assets played an important role in the fall of the US economy’s fall in the economic crisis of 2007-2010. Therefore, there has been greater research on safe assets and the current demand that exceeds supply. Since the existing research fails to explicitly investigate the role safe assets have on certain aspects of the macro-economy, it important to address the question: what is the relationship between the availability of safe assets and economic stability, specifically Gross Domestic Product and Investment? This question can be answered through a quantitative analysis of data on these three factors. The results of this analysis will not only provide insight into safe assets and economic stability, but help economists make decisions to keep the economy stable. This will benefit economists and all of the public because maintaining economic stability can help prevent future recessions. Everyone will benefit from this as recessions cause unemployment and significant loss of income. By understanding this relationship as well as the connection of GDP, Investment, and safe assets, the US economy can be more stable by maximizing output and investment. Thus, this is an important area of research that can provide essential information on the US economy.

Word Count: 1425
BUDGET/TIMELINE:
For this research investigation, the most important resources needed are access to the historical data of the total safe assets, average safe asset pricing, US Investment, and US GDP. The data for GDP and Investment is readily available, while the safe asset data will be harder to find. The other important resource would be access to the data analysis program STATA, which is one of the most commonly used analysis tools in econometrics. This leads to the timeline below:

TIMELINE:
This timeline estimates the amount of time it will take for each of the steps of creating the result of the research project. The dates are not set in order to be able to start and conduct the research at any point of the year.

1. Purchase STATA SE, which should be sufficient for this level of data analysis, to be able to conduct the statistical analysis. The student price for STATA SE $395. This can be done on my personal MacBook laptop (no budget for computer) and will take little time (2 hours).
2. Download the data on US GDP and Investment from one of the US Federal Bank Websites. (2 hours).
3. Contact the Federal Banks and other Safe Asset researchers to find the 75-year historical data on total safe assets and safe asset average prices. This should be of no cost but I will budget $200 in case of a charge for these data sets. I will budget two weeks for finding this data because it may take time to find who has the data and time to get it in my possession.
4. Enter all of the data into STATA and conduct statistical analysis. This will be done in the form of regression analysis to find a correlation between the two safe asset data sets and the GDP and Investment data (1 Day).
5. Analyze the results of the statistical analysis to understand results and form conclusions about the relationships (1 week).
6. Conduct more background research to begin writing the scholarly paper (1 week). There will be a $150 budget to gain access to scholarly papers from journals I do not have access to.
7. Write the scholarly paper to be able to display my research. This will be the longest step in the research project as writing involves creating a methodically planned paper and conducting several rounds of revisions and edits (1 month). In terms of cost, this should not cost any money as I can complete this process on my personal laptop.
BUDGET:
This budget from the steps above is an estimate and should be considered an approximation. The greatest variable is the cost of access to the safe asset data, which likely will not cost money, but possibly could. Therefore, the only definite cost is the price of the STATA program. This project will be relatively low cost as it does not involve travel or lodging because it can be completed at any location and does not require any advanced technology.

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