Answers provided to questions for interview published in Taiwan's CommonWealth Magazine, 25 March 2020 (answers provided on 16-17 March)

From your perspective, how serious would be the outbreak of COVID-19 in US and EU? The social distancing seems the best way to slow down the outbreak. This disease has caused a very special economic contraction, which could not stimulate by fiscal and monetary policy. How should we evaluate the economic impact of COVID-19 to US and EU economy?

COVID-19 is first and foremost a public health problem, but, due to the public health policy response to deal with it, centering on limiting interpersonal contact, it has rapidly become a serious economic problem. A big part of the public health policy response has been to limit the movement of people and where and how they gather, having a major depressing effect on consumption, which in turn will dampen business investment.

It looks almost certain that the US, European and Japanese economies, and that means the global economy, are heading into recession. The only questions are how deep the recession will be and how long it will last. Unlike a "normal" recession or even one triggered by a financial crisis, the major factor driving this recession, and the major source of uncertainty, is epidemiological in nature. Given that the public health policy response has been to implement measures aimed at keeping people away from one another and to a large extent confined to their homes, normal macroeconomic policy responses, involving the easing of monetary and fiscal policy, are likely to be of limited effect in terms of boosting overall economic activity.

Although the intent is not to cause a recession per se, the remarkable aspect of this crisis is that the suppression of economic activity is a centerpiece of the policy response to the threat to public health. Governments are in effect calculating that, because of the threat to human life, a short sharp retrenchment in economic activity is a justifiable price to pay in order to arrest the spread of the virus and hopefully eradicate it.

That being the case, a different way of thinkng about and deploying monetary and fiscal policy is needed. Conceptually, there are three aims of using fiscal and monetary policy: to help solve the underlying problem by mobilizing the necessary resources to deal with the public health challenges in all its manifestations; to confine the economic fallout to the absolute minimum necessary to achieve the public health objectives, including by shoring up the financial system and balance sheets; and to offset the adverse impact on the most affected or vulnerable people, businesses and sectors.

The stock market has led to the bear territory. Would these financial turbulence have real impact to US economy?

There is a significant danger of this happening. The stock market reflects the collective view of investors about the future course of the economy, as they see it being translated into corporate earnings. When an exogenous shock hits the real economy, as in the case of the outbreak and spread of COVID-19, it is natural for stock prices to fall, and, because of the high degree of uncertainty about the future, to be extremely volatile.

However, that drop in stock prices and jump in volatility (the VIX index of stock market volatility is now back to 2008 financial crisis levels) itself can have a negative effect on the real economy by making consumers and businesses pessimistic about the future.

This is a key reason why central banks all around the world, most notably the Bank of England, the European Central Bank, the Federal Reserve, and the Bank of Japan, have been acting so forcefully and comprehensively, although many are starting from a situation of already stretched monetary policy settings.

How would extremely low oil price hurt US economy?

The price of oil reflects conditions in the economy, but also has an effect on the economy in a way that is self-stabilizing. The price of oil reflects supply and demand, and both factors recently have worked to push down the price of oil, a spat between Russia and Saudi Arabia increasing prospective supply and the coronavirus-triggered slump curbing demand.

A low oil price is bad for the owners and producers of oil, particularly shale oil producers (and, taking a broader perspective, one might argue for the climate change movement), and good for consumers and businesses that use oil as a direct or indirect input. Once it has fallen, a low oil price should be stimulatory for the economy because, to the extent that it reflects weakening demand, that factor is already incorporated in the price, whereas the boost to future consumption from the lower price is yet to come.

Shale Oil industry seems a major contribution factors to US economic growth. Is it true? Do you think the industry would be dead because the extremely low oil price?

The shale oil revolution in the US, by dramatically increasing the supply of oil, has had a major impact on the energy sector in the US and on the "balance of power" in the global oil market, and has significantly lowered the dependence of the US on imported oil. However, the shale oil industry is a very small part of the overall US economy, seventy percent of which comprises services. The shale oil revolution has helped improve the competitiveness of the US manufacturing sector, but manufacturing comprises just eleven percent of value added in the economy and ten percent of (non-farm private) employment.

The shale oil industry would be badly hit if the oil price were to stay at these very low levels for an extended period, with output, employment and investment all likely to fall significantly. But the industry would likely survive at a smaller scale of operation, given its track record of technological innovation and the relative ease with which it can deploy its capital equipment in response to price and other market developments.

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