ECONOMICS 3020:
ACCELERATED MACROECONOMICS

Baker Laboratories 119

MWF 10:10 AM - 11:00 AM
Definition:

Business cycle: Short-run contractions and expansions in economic activity

Downward phase is called a recession
Unemployment

Unemployment: the number of people who are available for work and actively seeking work but cannot find jobs

U.S. experience shown in Fig. 3

Recessions cause unemployment rate to rise
Figure 3: The U.S. unemployment rate, 1890-2008
Figure 4: Consumer prices in the United States, 1800-2008

CONSUMER PRICE INDEX

Post-World War II inflation

Deflation of Great Depression (1929-1933)

World War I inflation (1917-1918)

Civil War inflation (1861-1865)

Postwar deflation

War of 1812 inflation (1812-1814)
Inflation in the United States

Deflation: when prices of most goods and services decline

Inflation rate: the percentage increase in the level of prices

Hyperinflation: an extremely high rate of inflation
Open vs. closed economies

• Open economy: an economy that has extensive trading and financial relationships with other national economies

• Closed economy: an economy that does not interact economically with the rest of the world
Trade imbalances

• U.S. experience shown in Fig. 5
• Trade surplus: exports exceed imports
• Trade deficit: imports exceed exports
Figure 5: U.S. exports and imports, 1869-2008
Macroeconomic Policy

Fiscal policy: government spending and taxation
• Effects of changes in federal budget
• U.S. experience in Fig. 6
• Relation to trade deficit?

Monetary policy: growth of money supply; determined by central bank; the Fed in U.S.
Figure 6: U.S. exports and imports, 1869-2008
Aggregation: summing individual economic variables to obtain economywide totals

Distinguishes microeconomics (disaggregated) from macroeconomics (aggregated)
What Macroeconomists Do

Macroeconomic forecasting

• Relatively few economists make forecasts

• Forecasting is very difficult. Why?
What Macroeconomists Do

Macroeconomic analysis

• Private and public sector economists - analyze current conditions

• Does having many economists ensure good macroeconomic policies? No, since politicians, not economists, make major decisions
Scientific Research in Macroeconomics

Goal: to make general statements about how the economy works

Theoretical and empirical research are necessary for forecasting and economic analysis

Economic theory: a set of ideas about the economy, organized in a logical framework
Scientific Research in Macroeconomics

Economic model: a simplified description of some aspect of the economy

Usefulness of economic theory or models depends on reasonableness of assumptions, possibility of being applied to real problems, empirically testable implications, theoretical results consistent with real-world data
Scientific Research in Macroeconomics

As in all sciences:

• Define and collect data.
• Model the economy.
• Test the model.
• Reconsider the data and the model.
Step 1: State the research question

Step 2: Make provisional assumptions

Step 3: Work out the implications of the theory

Step 4: Conduct an empirical analysis to compare the implications of the theory with the data

Step 5: Evaluate the results of your comparisons
Chalkboard Lecture on Production Functions