

INTRODUCTION

What is Macroeconomics About?

- Why are some countries rich while other countries are poor?
- Why are most Americans better off than their parents?
- Why are there fluctuations in aggregate activities?
- What causes inflation? Unemployment?

The Traditional Approach to Macroeconomics

- Examine the behavior of aggregate variables without considering the choices of individual consumers and firms.
- The 1970's and 1980's told us that policymaking using this approach was flawed!
- Example: A football example

- These changes in behavior must be considered if we want to design good policy and make accurate forecasts.

Modern Macroeconomics

- Macroeconomics is built from microeconomic principles
- Households and Firms act in their self-interest subject to institutional constraints
- Changes in institutions results in changes in behavior

Questions we want to be able to answer by the end of the semester

- What causes sustained growth?
- Could economic growth continue indefinitely, are is there a limit?
- Is there anything that governments can or should do to alter the rate of economic growth?
- What causes business cycles?

- Should governments act to smooth business cycles?
- Do we have to worry about the big fiscal deficits?
- Should we worry about large trade deficits?
- Is Free Trade Good for U.S. workers?

What is do we mean when we talk about economic growth and business cycles?

Figure 1.1 Per Capita Real GNP (in 1996 dollars) for the United States, 1900–2002

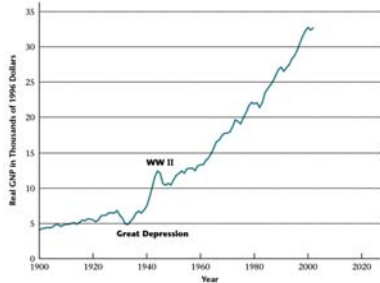
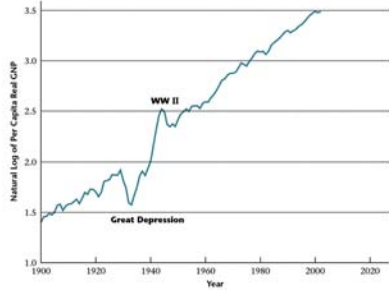


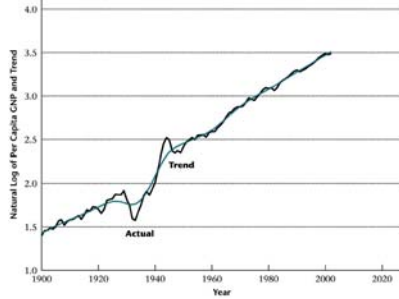
Figure 1.2 Natural Logarithm of Per Capita Real GNP



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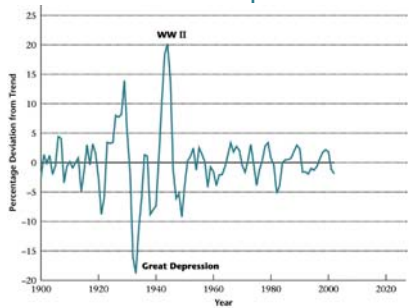
Figure 1.3 Natural Logarithm of Per Capita Real GNP and Trend



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Figure 1.4 Percentage Deviations from Trend in Per Capita Real GNP



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In this course, we want to make sense out of current events and issues. What are some facts?

Figure 1.5 Natural Logarithm of Average Labor Productivity

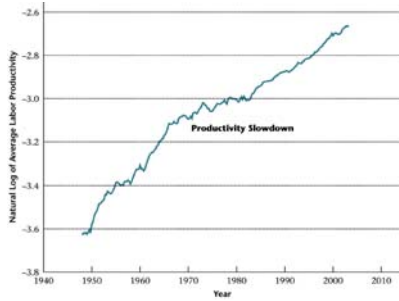


Figure 1.6 Total Taxes (black line) and Total Government Spending (colored line) in the United States, as Percentages of GDP

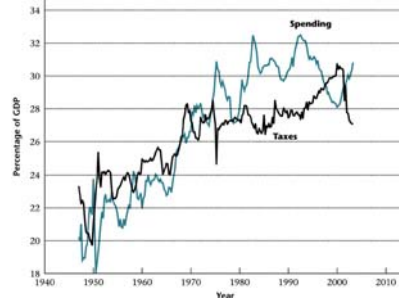
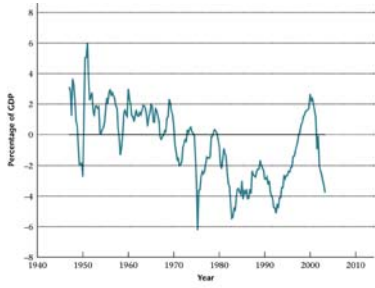


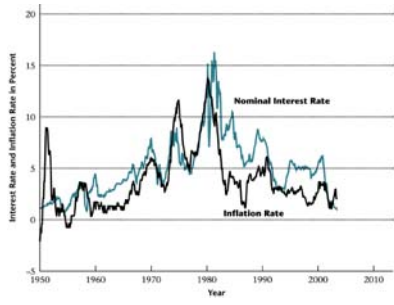
Figure 1.7 The Total Government Surplus in the United States\break as a Percentage of GDP



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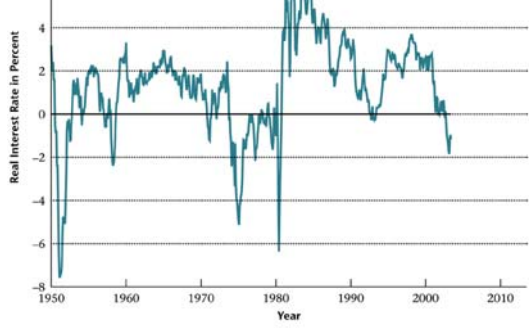
Figure 1.8 The Nominal Interest Rate and the Inflation Rate



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Figure 1.9 Real Interest Rate

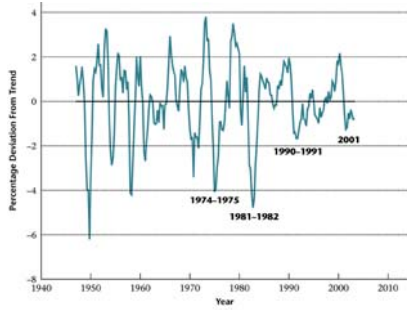


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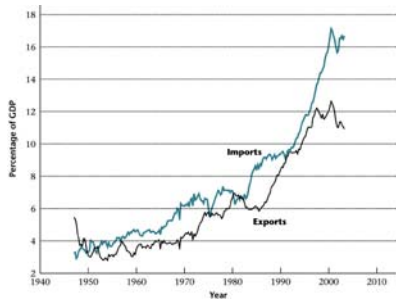
Figure 1.10 Percentage Deviations from Trend in GDP, 1947–2003



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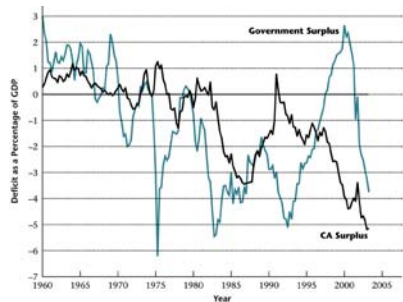
Figure 1.11 Exports and Imports of Goods and Services for the United States as Percentages of GDP



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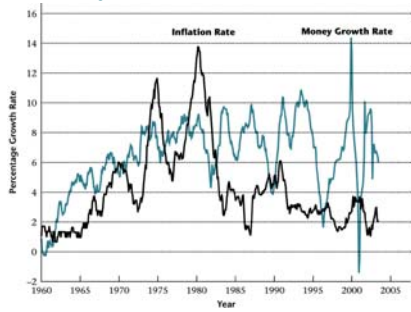
Figure 1.12 The Current Account Surplus and the Government Surplus, 1960–2003



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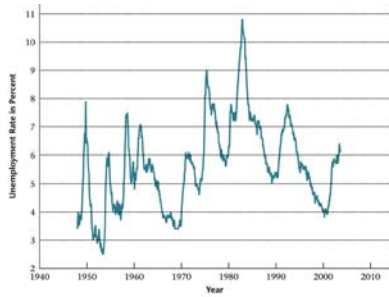
Figure 1.13 The Inflation Rate and the Money Growth Rate



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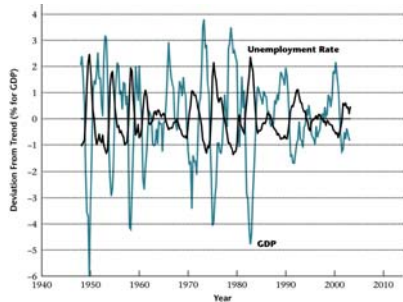
Figure 1.14 The Unemployment Rate in the United States, 1948–2003



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Figure 1.15 Deviations from Trend in the Unemployment Rate (black line) and Percentage Deviations from Trend in Real GDP (colored line)



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