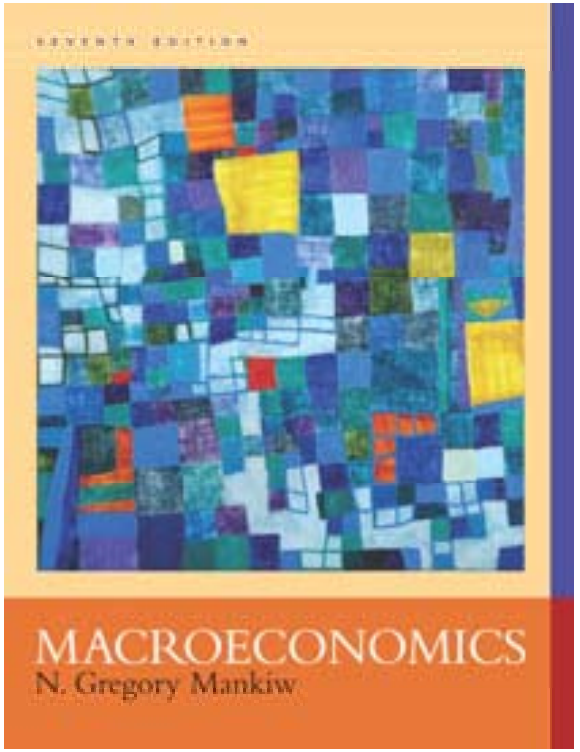
APEC 3006

Intermediate Macroeconomics

Professor Gerard McCullough

Lecture 1

Introduction to Macroeconomics



Lecture 1 – Introduction to macroecoonomics

- Important macroeconomic issues
- Key macroeconomic concepts
- Why learn macroeconomics?
- Course syllabus & expectations

Important issues in macroeconomics

Macroeconomics, the study of the economy as a whole, addresses many topical issues:

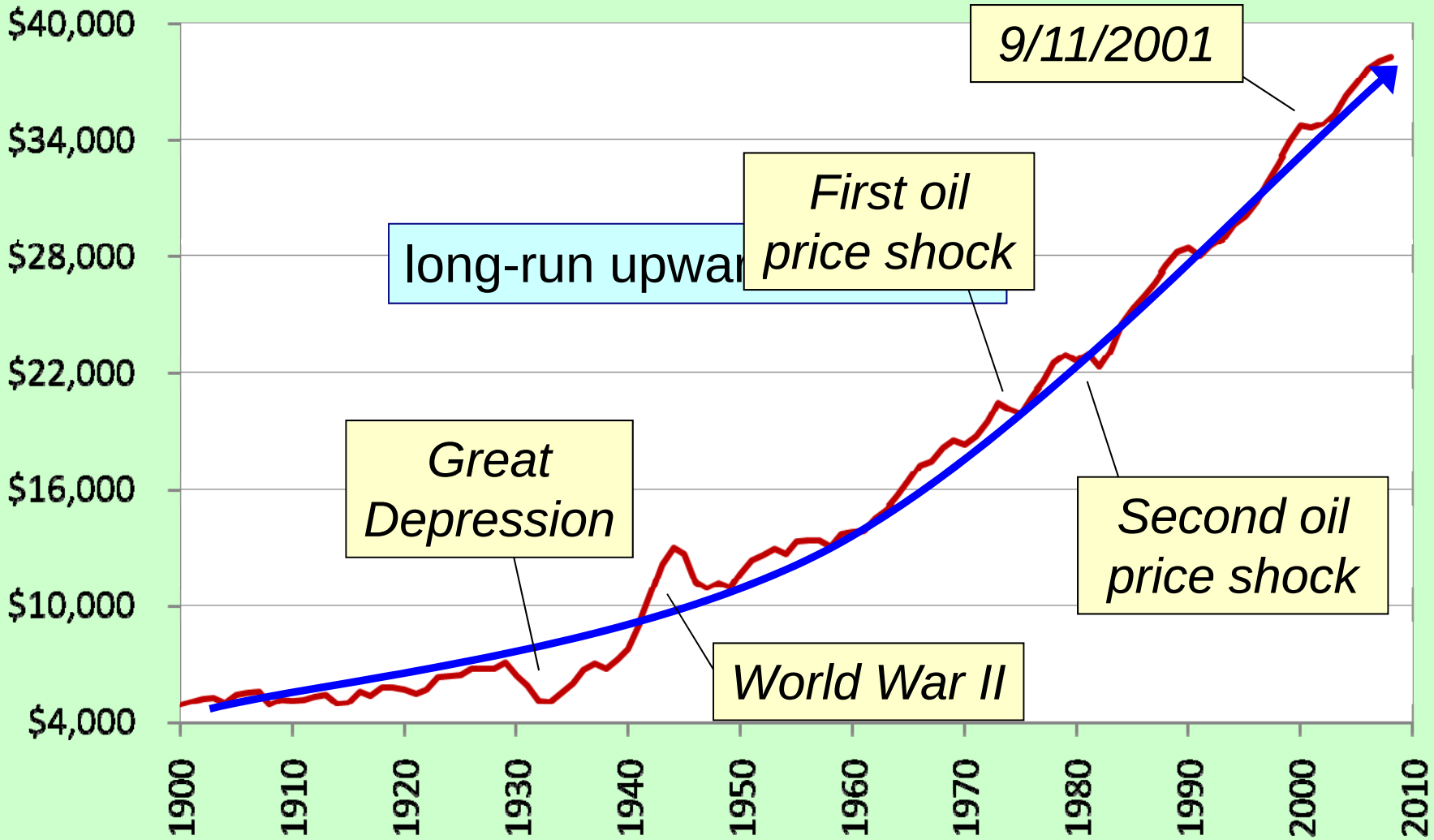
- What causes recessions? What is "government stimulus" and why might it help?
- How can problems in the housing market spread to the rest of the economy?
- What is the government budget deficit? How does it affect workers, consumers, businesses, and taxpayers?

Important issues in macroeconomics

Macroeconomics, the study of the economy as a whole, addresses many topical issues:

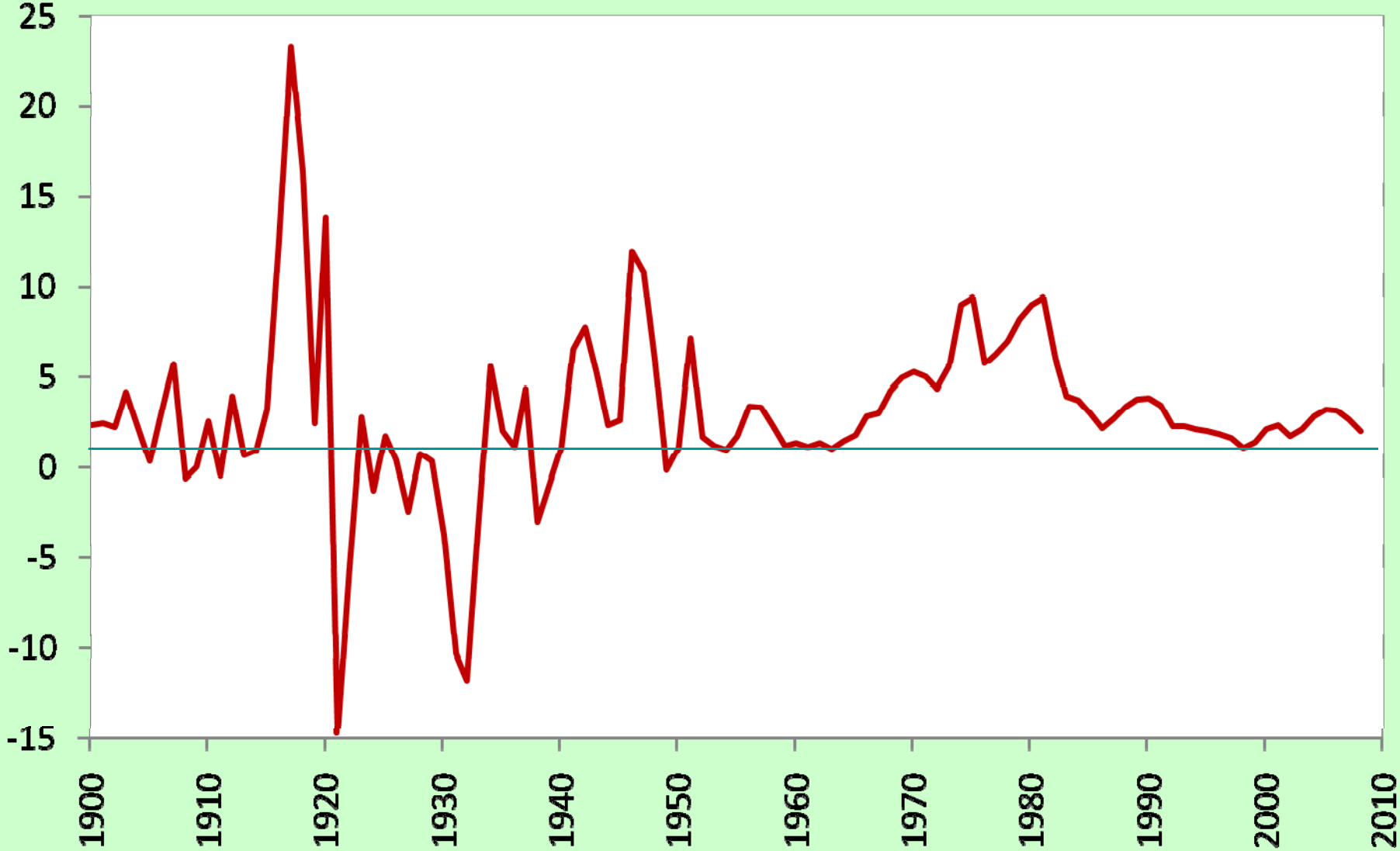
- Why does the cost of living keep rising?
- Why are so many countries poor? What policies might help them grow out of poverty?
- What is the trade deficit? How does it affect the country's well-being?

U.S. Real GDP per capita
(2000 dollars)

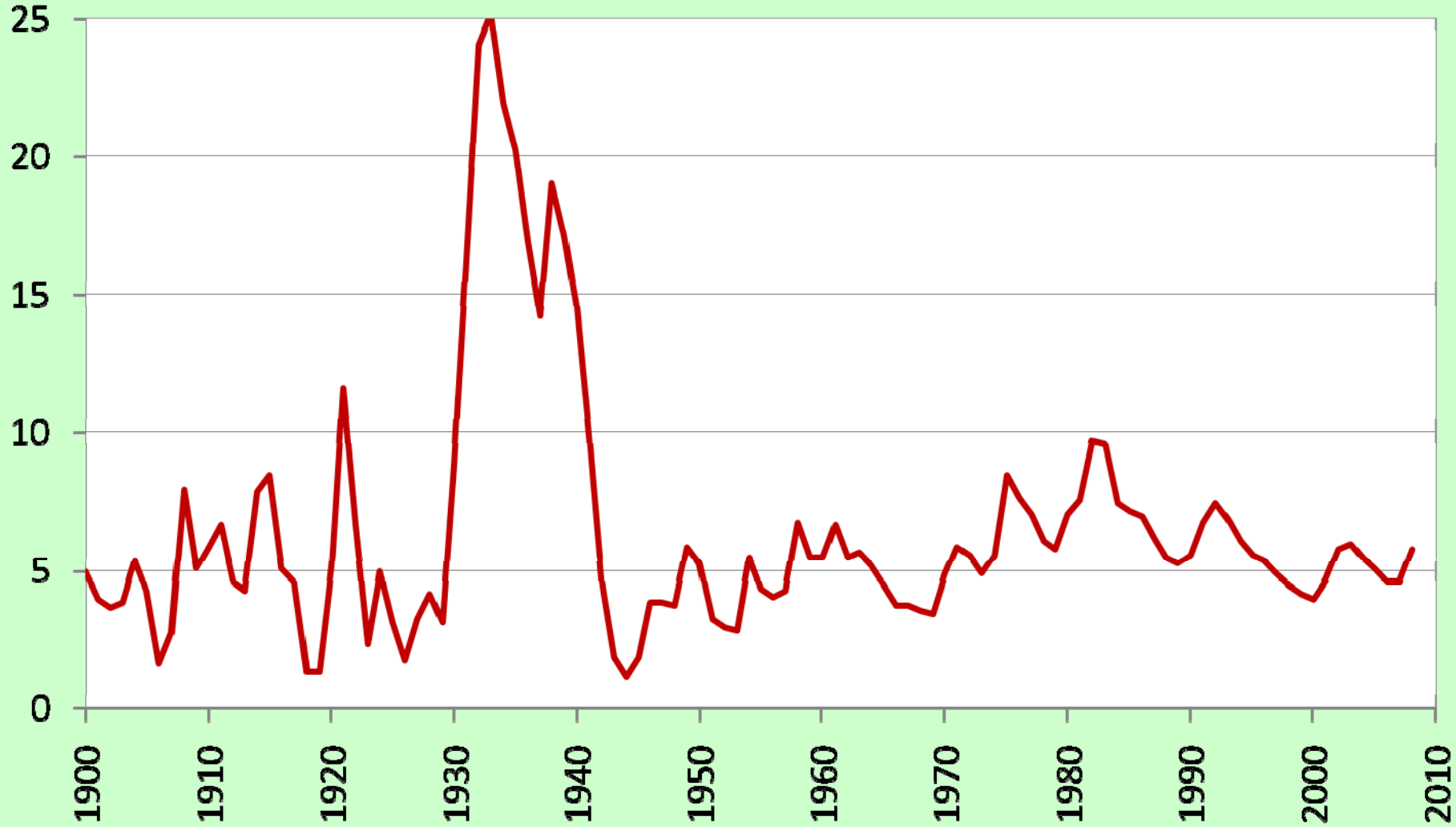


U.S. Inflation Rate

(% per year)

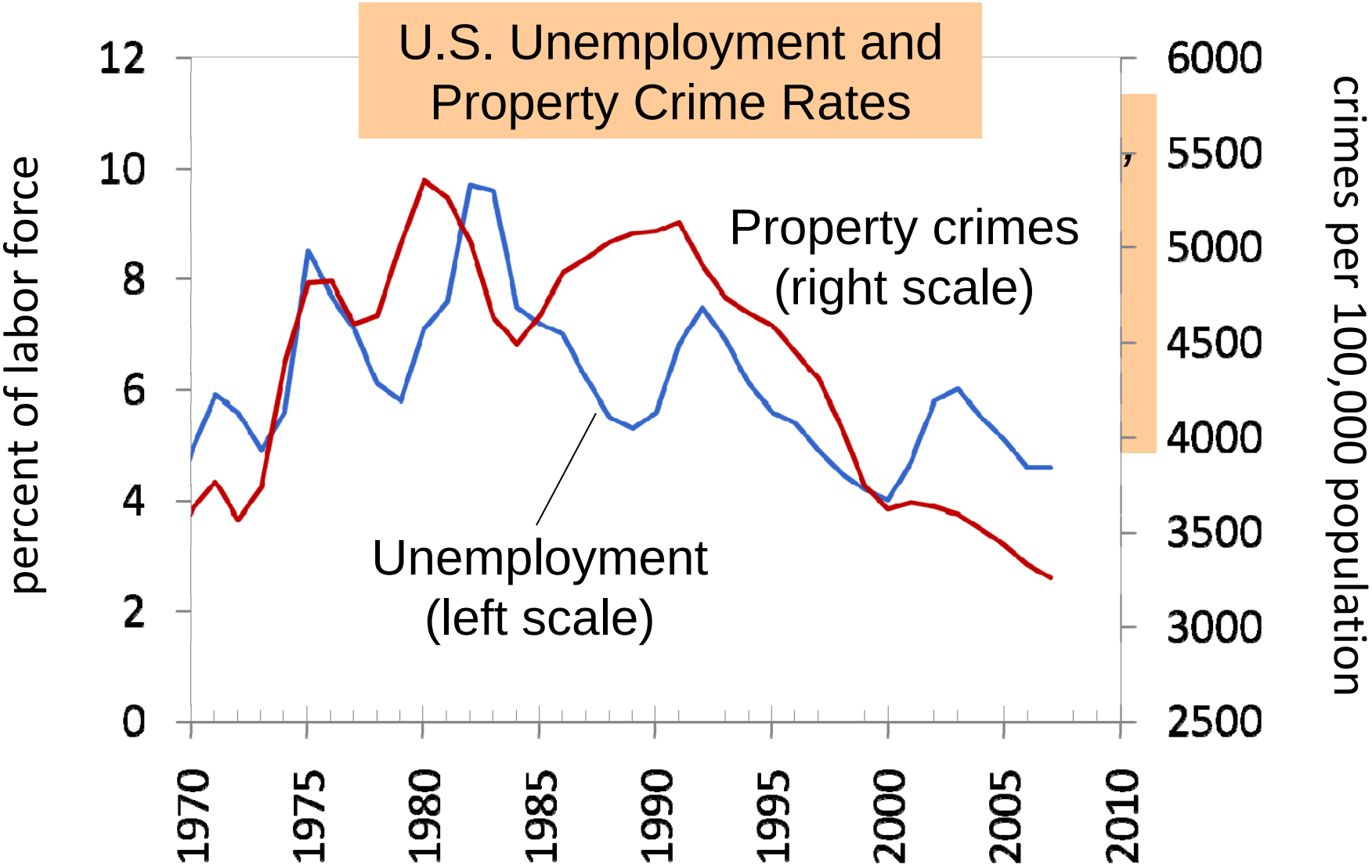


U.S. Unemployment Rate
(% of labor force)



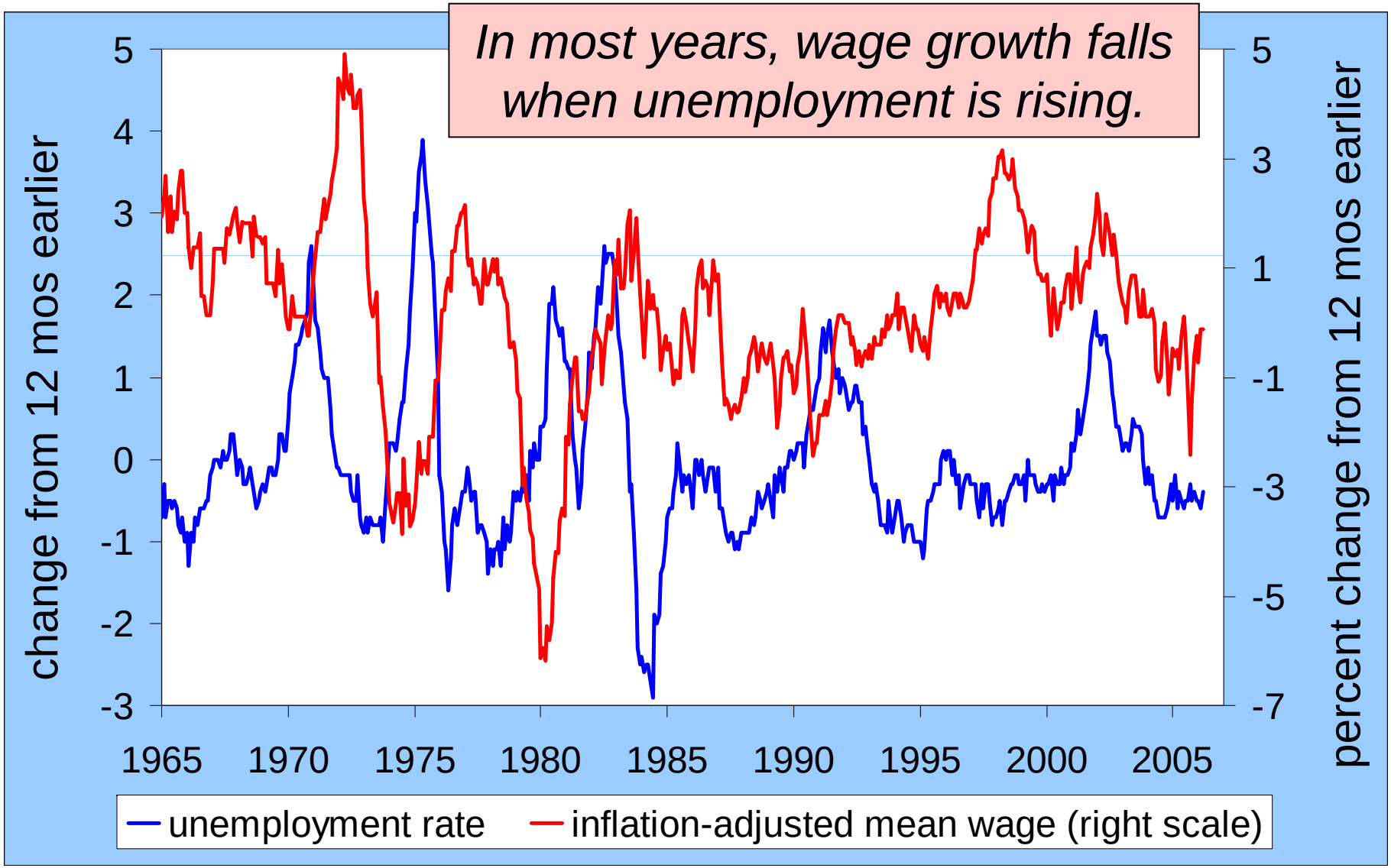
Why learn macroeconomics?

1. The macroeconomy affects society's well-being.



Why learn macroeconomics?

2. The macroeconomy affects <u>your</u> well-being.



Why learn macroeconomics?

3. The macroeconomy affects election outcomes.

Unemployment & inflation in election years

year	*U rate*	*inflation rate*	*elec. outcome*
1976	7.7%	5.8%	Carter (D)
1980	7.1%	13.5%	Reagan (R)
1984	7.5%	4.3%	Reagan (R)
1988	5.5%	4.1%	Bush I (R)
1992	7.5%	3.0%	Clinton (D)
1996	5.4%	3.3%	Clinton (D)
2000	4.0%	3.4%	Bush II (R)
2004	5.5%	3.3%	Bush II (R)
2008	7.2%	3.8%	Obama (D)

Economic models

…are simplified versions of a more complex reality

- irrelevant details are stripped away

…are used to

- show relationships between variables
- explain the economy's behavior
- devise policies to improve economic performance

TABLE 8-3

Accounting for Economic Growth in the United States

			SOURCE OF GROWTH				
Years	Output Growth $\Delta Y/Y$	=	Capital $\alpha \Delta K/K$	+	Labor $(1-\alpha)\Delta L/L$	+	Total Factor Productivity $\Delta A/A$
			(average percentage increase per year)				
1948–2002	3.6		1.2		1.2		1.2
1948–1972	4.0		1.2		1.0		1.8
1972–1995	3.2		1.3		1.4		0.5
1995–2002	3.7		1.7		0.9		1.1

Source: U.S. Department of Labor. Data are for the non-farm business sector.

Outline of the text:

- Introductory material (Chaps. 1 & 2)
- Classical Theory (Chaps. 3-6)
  How the economy works in the long run.
- Business Cycle Theory (Chaps. 9-14)
  How the economy works in the short run.
- Growth Theory (Chaps. 7-8)
  How the economy works in the very long run.
- Policy Debates (Chaps. 15-16)