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>> Welcome to The Power of
Macroeconomics.
Lecture One.
An Overview of Modern Macroeconomics.
>> Hi I'm Peter Navarro and I'm here to introduce you to the power
of macroeconomics, one of the most interesting,
challenging and useful subjects that you can learn.
At a personal level macro economics can answer
questions like should I switch jobs or ask for
a raise?
Should I buy house now or wait until next year?
Should I get a variable or fixed rate mortgage?
A business and professional level, macroeconomics
can also help answer questions like how much should I manufacture this month and how much inventory should I maintain?
Should I invest in new plant and equipment,
expand into foreign markets, or downsize my firm?
Macroeconomics can help answer these questions because it arms us with a
new way of thinking about the world we live and work in.
Indeed this is the real power of macroeconomics.
It helps us filter and sort and process all of
the information we are bombarded with every day in the media.
An interest rate hike here, a fallen consumer confidence there.
Coffee shortage in Brazil or a drop in the Japanese yen.
From the macroeconomic perspective, all of these
seemingly unrelated bits of information revealed to
us first patterns and trends, and ultimately
courses of action which we might fruitfully follow.
Or ignore at our own peril.
Let me show you what I mean with a couple of stories about two fictional people in
very real situations.
Jim Wells used
to own a small, high tech manufacturing business that made precision components for computer games.
Every July, Jim had to decide how many components to produce for
the upcoming holiday season, and every year he had simply doubled his production.
Since he never had any trouble moving the inventory, Jim decided to do the same thing again.
Even though it meant taking out a big short
term loan to finance the expansion.
Unfortunately Jim's college studies in engineering
never included a course in macroeconomics.
So in making his decision, he missed some rather significant danger signs.
For example, he had read in the Wall Street Journal that the Federal
Reserve recently raised the bank discount rate, and sold bonds in the open market.
But Jim didn't see
this as contractionary monetary policy
that might trigger a recession.
Instead he just grumbled about the higher interest rate on his business loan.
Nor did Jim see the recessionary implications of several stories on CNN reporting
a fall in consumer confidence and a slight uptick in the unemployment rate.
And even though Jim had noted a small blurb in Business Week
about Japan's shift towards a more expansionary
monetary policy, Jim didn't have a clue
that this would cause the value of the yen
to fall relative to the dollar.
And give his Japanese competitors a big leg up.
So Jim got caught with his proverbial pants down.
By October, the Japanese had taken over half of a market
that was already shrinking fast from the onset of a recession.
By Thanksgiving, Jim found himself sitting on
a huge inventory that he couldn't give away.

By December, he was unable to pay a huge loan that wouldn't go away.
By June, he was bankrupt.
Today,
Jim works as a consultant for one of his old Japanese competitors
during the day, and studies macroeconomics in the evenings at a nearby college.
He sits in the front row of class right next to Teresa Watson.
Unlike Jim, Teresa didn't go bankrupt but she came very close.
You see Teresa is a single working mother whose
big dream in life is to own her own home.
As the marketing director for a major corporation, Teresa earns a good salary
and some years ago she had saved $25,000 for a house down payment.
After months of looking, Teresa's choice had boiled down
to either a modest two bedroom condo near her
job in the city or her dream home, the more expensive single family house out in the valley.
After talking it
over with a mortgage banker, Teresa decided that the only way she
could afford her dream home was to take out a variable rate mortgage.
It was available at a full two percentage points below the fixed rate mortgage, and her
monthly mortgage payment would be several hundred dollars
less, but only if interest rate stayed low.
Sure, Teresa felt a little nervous about choosing the variable rate, but the mortgage banker
told her not to worry.
Rates of been stable for over three years now and it shouldn't be any problem.
Teresa failed to see, however, were numerous warning signs of growing inflationary pressures.
On the demand-poll side the unemployment rate had just reached an eight year low.
On the cost push side, the news was full of
stories about a bad cotton crop in Brazil, a worldwide
drought and possible food shortages, renewed violence
in the Middle East and rising oil prices.
And a fall in the value of the dollar.
Within two years, interest rates had climbed into the double
digits, and Teresa could no longer afford her skyrocketing mortgage payments.
The climb in interest rates, the economy plunged into
a recession taking the real estate market down with it.
For six months, Teresa tried to sell her house at the original price.
But finally, facing the humiliation of foreclosure, she unloaded it
for $25,000 less than she bought it for, losing every cent of her equity.
The tragedy is that both Jim and Teresa could've avoided their
hardships if they had only been armed with the power of macroeconomics.
Anticipating increased competition and recession,
Jim could have halved this production rather than doubling it and he'd still be in business today.
And Teresa could
have either bought that less expensive condo with a fixed rate mortgage.
Or better yet, waited until the real estate market went
soft and bought her dream house at an affordable price.
Despite the enormous impact macroeconomics has on our personal and professional
lives, most of us view it as a remote, complicated and indeed dismal science.
In fact, when I
first studied macroeconomics I got quickly buried in a jumble of graphs and equations
that seemingly had little relevance either to my own personal or professional life.
It wasn't until I began to teach the subject that I saw that the best
way to truly understand the power of macroeconomics
is to teach it from an historical perspective.
This is important for at least two reasons.
First history gives us a real world context for an otherwise abstract and difficult subject.

Think about it.
For our grandparents the hardships, pain, and uncertainty of the Great Depression were all too real and we as a nation don't ever want to repeat them.
Nor do we want to repeat the economic stagnation of the 1950s, the stagflation of the 1970s, or the so-called jobless recovery of the early 1990s.
The second reason to put macroeconomics in an historical context, is to emphasize that it is very much an evolving policy science.
Put simply, the Keynesian solutions which were used to lift us out of the Great Depression in the 1930s, or to wake us up from the economic doldrums of the 1960s Would be inappropriate in today's more sophisticated in global economy.
In the remainder of this first lesson, we'll briefly define macroeconomics and then identify key policy issues.
Once we do that, we'll move right into a short macroeconomic history by first introducing so called Classical Economics.
A school of thinking that macroeconomists around the world relied heavily upon from the late 1700s, right up until the Great Depression of the 1930s.
However, beginning with the Great Depression, we will see that the problems facing macroeconomists have become progressively more complex over time.
From unemployment and inflation to stagflation, stagnating income, and chronic budget and trade deficits.
We'll also see that new macroeconomic theories have emerged in response to this increasing complexity at key turning points in the world's economic history.
Keynesianism in the 1930s, monetarism in the 1970s, supply side economics in the 1980s.
And new Classical Economics in the the 1990s.

[MUSIC]
So what is macroeconomics?
The word macro means big or large.
And macroeconomics focuses on the big economic
picture, specifically how the overall national economy performs.
Macroeconomics is distinguished from microeconomics
which deals with the behavior of individual markets and the business, consumers, investors and workers that make up the economy.
The four most important policy problems in macroeconomics are inflation, unemployment,
the rate of economic growth and movements in the business cycle.
Inflation is defined as an upward movement of prices from one year to the next.
It is typically measured by the percentage change in price
indices, such as the consumer price index, the producer price
index, or the so called GDP deflator.
For example, the producer price index is based on a number of important raw materials.
While the most widely used measure of inflation, the consumer price index, or CPI, is calculated by pricing a market basket of goods and services.
Purchased by a typical household.
This market basket
includes prices of food, clothing, shelter, fuel, transportation, medical care, college tuition, and other goods and services purchased for day-to-day living.
Inflation has often been described as The Cruelest Tax because
it eats away at our savings and at our paychecks.
For example, if the rate of inflation exceeds the rate of growth in our paycheck that means our real income or purchasing power
is declining even though our wages are going up.
Note, however, that not everyone loses from inflation.
For example inflation net is unanticipated can
benefit borrowers at the expense of lenders.
How might that happen?
To see how inflation can help borrowers and hurt lenders,
suppose you borrow $1,000 from a bank and promise to repay it in two years.
If during that time, the price level doubles because of inflation,
the $1000 which you repay will have only half the purchasing power
of the $1000 originally borrowed.
Macro Economic Problem number two is unemployment.
The unemployment
rate is measured as the number of unemployed persons
divided by the number of people in the labor force.
In talking about employment.
Economists distinguish between three kinds, frictional, cyclical and structural.
Frictional unemployment is the least of the macroeconomist's worries.
It occurrs as a natural part of the job seeking process as
people quit their jobs just long enough to look for and find another one.
Cyclical unemployment however is a much more serious problem.
It occurs when the economy dips into a recession and it is this type
of unemployment that microeconomists have historically spend
most of their time trying to solve.
However, in an increasingly technological age the
third type of unemployment, structural unemployment has begun receiving more attention.
Structural unemployment occurs when a change
in technology makes someone's job obsolete.
The auto worker replaced by a robot, the telephone information operator replaced by a computerized voice synthesizer.
Or the classroom teacher replaced by a video or audio tape.
As we shall see, structural unemployment is one
of the hardest kinds of unemployment to cure.
The third major macroeconomic policy

program
focuses on the rate of economic growth.
The rate of economic growth is typically measured by
the growth in the nation's gross domestic product, or GDP.
The GDP is defined as the market value of all the
final goods and services produced in a country in a given year.
And economists have two ways
of measuring it.
One is called the flow of cost or income approach.
The other is called the flow of product or expenditures approach.
With the flow of product or expenditures
approach the gross domestic product equals
consumption plus investment plus
government expenditures
plus expenditures by foreigners or net exports.
Where net exports are defined as the
difference between total imports and total exports.
In contrast, the flow of cost, or income
approach, simply adds up
all the income people receive each year
from producing the year's output.
Under this approach the gross domestic product
roughly equals wages earned by workers plus
rents earned by property owners plus interest
received by lenders plus profits earned by firms.
In thinking about economic growth in the
gross domestic product
it is useful to distinguish between actual
and potential GDP.
Actual GDP, represents what we are
producing, while potential GDP
represents the maximum amount the economy
can produce without causing inflation.
When actual GDP is well below potential GDP,
we are in the recessionary range of the economy.
In contrast, when actual GDP is above potential
GDP, we run the strong risk of inflation.
This figure illustrates the relationship
between actual
and potential GDP and the unemployment rate.
In the top portion of the figure.
The difference between potential GDP and actual
GDP is the GDP gap.
This GDP gap measures the output
the economy sacrifices because it fails to
fully use its productive potential.
Note, in the lower figure, that a high
unemployment rate, means a large GDP gap.
In thinking about economic growth, and the
gross domestic product,
it is also useful to distinguish between
nominal GDP and real GDP.
Nominal GDP is measured in actual market prices.
However, prices change over time and if we
were to use nominal GDP to measure
economic growth.
It would be like using a rubber yardstick.
One that stretches in your hands
from day to day.
To address this problem, macroeconomists
use real GDP.
This is simply nominal GDP adjusted for
inflation, and it is calculated in
constant prices for a particular
year, say, 1992.
Moreover when we divide nominal
GDP by a Real GDP, we obtain the GDP Deflator,
another valuable inflation index.
Real GDP is the best widely available measure
of the level and growth of output in
the economy and movements in Real GDP serve
as the carefully monitored pulse of a
nation's economy.
Closely related to the issue of economic
growth and real GDP
as a measure of such growth is the problem
of business cycles.
The term business cycle refers to the recurrent
ups and downs in real GDP over several years.
While individual business cycles vary
substantially in
length and intensity, all display common phases,
as illustrated in this figure.

The cycle looks like a roller coaster.
There is a peak where business activity reaches a maximum, a
trough which is brought about by a recessionary downturn in total output.
And a recovery or upturn in which the economy expands towards full employment.
Note that each of these phases of the cycle
oscillate around a growth trend line.
A central concern of macro economist is to determine whether a recurring
business cycle exists and if so, what are the forces behind it?
More importantly, both macro economists and the
political leaders they may serve, want to know what macro economic policies, may be used to control or harness the business cycle.
At the same time, a central concern
of businesses is to determine whether the economy is going into a contraction or expansion.
With the right guess in business, often being the
difference between a big profit and a big loss.
That's why many businesses rely on economic forecasting services
to help them plan their production and marketing efforts

[MUSIC]
In dealing with economic problems such as
inflation and unemployment, the
federal government has a number of policy
tools at his disposal.
The two most important are the fiscal
policy and monetary policy.
Fiscal policy uses increased government
expenditure, or, alternatively
tax cuts to stimulate or expand the
economy.
Fiscal policy can also be used to contract
the economy and fight inflation by
reducing government expenditures.
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expenditures, or, alternatively,
tax cuts to stimulate or expand the
economy.
Fiscal policy can also be used to contract
the economy
and fight inflation by reducing government
expenditures or raising taxes.
Monetary policy, on the other hand, uses
control over the money supply to achieve
similar
goals in both monetary and fiscal policy
are often used in conjunction with one
another.
Properly practiced, macro economic
policies can help
create a climate of prosperity and growth.
However, improperly implied macroeconomic
policies can
inflict the greatest of miseries and harm.
In the remainder of this first lesson we
will demonstrate this
point by briefly outlining the historical
evolution of macro economic thinking.
In doing
so we'll show how over time new theories
like Keynesianism, monetarism
and supply-side economics have emerged to
try and cope with problems that
the previous theories couldn't solve.
Ultimately,
it is only after we come to understand how
macroeconomics has evolved.
And how it keeps evolving over time.
That we will come to realize
how important and relevant this subject is
to everything we do.
Before beginning our macroeconomic history
however, let's become acquainted
with one of the most important tools in
macroeconomics.
Aggregate supply aggregate demand
analysis.
The AS-AD model has its roots in
classical economics and is represented in
this figure.
The vertical axis measures the general
price level for all goods and services.
And the horizontal axis measures the level
of real gdp.
The curve labeled AS represents the
economy's aggregate supply, or
how much out put the economy will produce
at different price levels.
Note that it slopes upwards meaning that
the higher the price level the
more that businesses will produce.
The downward sloping AD curve is the
aggregate demand curve.
It represents what everyone in the
economy, consumers, businesses,
foreigners and government, would buy at
different aggregate price levels
Downwards slope means that as the general
price level
is falls consumers and businesses will
increase their demand for
goods and services.
Where the AS And AD curves
cross, at point e, we have a macro
economic equilibrium.
A macroeconomic equilibrium is a
combination
of overall price and quantity at
which neither buyers nor sellers wish to
change their purchases, sales, or prices.
For example, at a price
level of P equals 200, the economy is out
of equilibrium.
Why do you think this would be?
The economy is out of equilibrium because
businesses want to
sell quantity C, but purchasers only want
to buy quantity B.
At this price, goods will pile up on the
shelves,
and eventually firms will have to cut
production and prices.
This drives the economy back to
equilibrium at point E.
Now, let's use this aggregate supply/
aggregate
demand model, to interpret some important

events in macroeconomic history.

[MUSIC].
To begin our macroeconomic history let's
start with the classical model.
It dates back the late 1700s and it has
its roots in the Laissez Faire
writings of free market economists like
Adam Smith
David Ricardo, and most importantly Jean
Baptist Say.
These classical economists believe that
the
problem of unemployment was the natural
part
of the business cycle.
That it was self-correcting and most
important, that there was no need
for the government to interfere in the
free market to correct it.
Between the Civil War and the roaring 20s,
Americans sustained
periodic booms and busts, recording no
less than five official depressions.
However, after every bust the economy
always bounced back,
exactly as the classical economists
predicted.
That was true until these classical
economists met
their match in the Great Depression of teh
1930's.
With the stockmarket crash of 1929 the
economy fell
into first a recession and then a deep
depression.
The gross domestic product fell by almost
a third, and by 1933,
25% of the work force was unemployed.
At the same time, business
investment virtually disappeared.
From about $16
billion in 1929, to $1 billion by 1933.
While President Herbert Hoover kept
promising
that prosperity was just around the
corner.
And the classical economists kept waiting
for what they viewed as the inevitable
recovery.
Two key figures walked on to the
macroeconomic stage.
Economist John Maynard Keynes, and
Hoover's presidential successor, Franklin
Delano Roosevelt.
John Maynard Keynes, flatly rejected the
classical notion of a self correcting
economy.
And warned that patiently waiting for the
eventual recovery was fruitless.
because, in the long run, we're all dead.
Keynes believed that under certain
circumstances, the economy would not
naturally rebound, but simply stagnate, or
even worse, fall into a death spiral.
To Keynes, the only way to get the economy
moving
again, was to prime the economic pump with
increased government expenditures.
Thus, the fiscal policy was born and a
Keynesian prescription became the
underlying, if unstated philosophy of
Franklin Delano Roosevelt's New Deal.
Roosevelt's ambitious public works
programs in the 1930s,
together with the 1940s boom of World War
II.
Were enough to lift the American economy
out
of the great depression and up to
unparallel heights.
In the early 1950s, the Keynesian
prescription
of large scale government expenditures
worked again.
This time when the heavy spending
associated with the
Korean War helped pull the economy out of
a slump.
A decade later, pure Keynesianism reached
its zenith with a much
heralded Kennedy tax cut of 1964.
And
President John F Kennedy's Camelot, the
Chairman of
Economic Advisors, Walter Heller,
popularized the term, fine tuning.
And Heller firmly believed that through
the careful mechanistic application of
Keynesian principles.
The nation's macroeconomy could be held
very
close to full employment with minimal
inflation.
1962, Heller recommended to Kennedy that
the President advocate a large tax cut to
stimulate the sluggish economy.
The Congress eventually agreed, and this
Keynesian tax cut helped

make the 1960s one of the most prosperous decades in America.
However, this fiscal stimulus also laid the foundation for the emergence of a new and ugly macroeconomic phenomenon known as Stagflation.
Simultaneous high inflation and high unemployment.
The stagflation problem had its roots in President Lyndon Johnson's stubbornness.
In the late 1960s, against the strong advice of his economic advisors, Johnson increased his expenditures on the Vietnam War.
But refused to cut spending on his great society social welfare programs.
This refusal helped spawn the virulent demand pull iflation.

[MUSIC].
The essence of Demand-Pull Inflation is
too much money chasing too few goods.
And that is exactly what happened when the
U.S tried to finance
both guns and butter both the Vietnam War
and the Great Society.
This situation is illustrated in this
figure.
During war time, increased defense
spending moves aggregate
demand from AD to AD prime.
And equilibrium output
increases from E to E prime as real GEP
expands.
However, when real output rises far above
potential output, the price level moves up
sharply
as well, from P to P prime.
In 1972, President Richard Nixon
impose price and wage controls and gained
the
nation a brief respite from the
Johnson-era inflation.
However, once the controls were lifted in
1973, inflation jumped back up to double
digits.
Helped in large part by a different kind
of inflation then
emerging, an inflation known as cost push
or supply side inflation.
Cost-push, or supply-side
inflation occurs when factors such as
rapid increases in raw
material prices or wage increases drive up
production costs.
This can happen as a result of so-called
supply
shocks, such as those experienced in the
early 1970s.
During this period, such shock included
crop
failures, a worldwide drought, and a
quadrupling
of the world price of crude oil.
This cost push situation in the 1970s is
illustrated in this figure.
Sharply higher oil, commodity, and labor
costs increased the cost of doing
business.
In the AS, AD framework the higher cost
shift the AS curve up from AS to AS prime.
And, the equilibrium shifts from E to E
prime.
Output declines from Q to Q prime while
prices rise.
This leads to the phenomenon of
stagflation, recession or stagnation
combined with inflation.
In this situation the economy suffers the
double
whammy of both lower output and higher
prices.
Prior to the 1970s, economists didn't
believe you could even
have both high inflation and high
unemployment at the same time.
One went up, the other had to go down.
The 1970s proved economists wrong on this
point and likewise exposed
Keynesian economics as being incapable of
solving the new stagnation problem.
Keynesian Dilemma
was simply this, using expansionary
policies
to reduce unemployment simply created more
inflation.
While using contractionary policies to
curb inflation, only deepened the
recession.
That meant that the traditional Keynesian
tools could solve only half of the
stagflation problem at any one time.
And only by making the other half worse.
It was this inability of Keynesian
economics
to cope with stagflation that set the
stage for Professor Milton Friedman's,
Monetarist challenge
to what had become the Keynesian
orthodoxy.
Milton Friedman's Monetarist school argued
that the problems of
both inflation and recession may be traced
to one thing.
The rate of growth of the money supply.
To the Monetarists,
inflation happens when the government
prints too much
money, and recessions happen when it
prints too little.
From this Monetarist perspective,
stagflation is the
inevitable result of activist fiscal and
monetary
policies, that try to push the economy
beyond its so-called natural rate of

unemployment.
Or, more technically, its lowest
sustainable unemployment rate.
This natural rate of unemployment, or
LSUR, is the lowest level
of unemployment that can be attained
without upward pressure on inflation.
Or into the Monetarist expansionary
attempts to go beyond this lowest
sustainable unemployment rate may result
in short run spurts of growth.
However, after each growth spurt, prices
and wages rise, and
drag the economy back to its LSUR, albeit
at a higher rate of inflation.
Over time these futile attempts to the
economy beyond it's
lowest sustainable unemployment rate lead
to an upward inflationary spiral.
In this situation, Monetarists believe
that the only way
to wring inflation and inflationary
expectations out of the economy,
is to have the actual unemployment rate
rise above the LSUR.
And that means only thing, inducing a
recession.
This is at least one interpretation of
what the federal reserve did beginning in
1979 under the Monetarist banner of
setting monetary growth targets.
Under Chairman Paul Volcker, the Fed
adopted a sharply contractionary monetary
policy.
And interest rates soared to over 20%.
Particularly hard hit were interest
sensitive
sectors of the economy like housing
construction, automobile purchases and
business investment
while the Feds bitter medicine worked.
Three years of hard economic times left a
bitter taste in the mouths of the American
people.
Now hungry for a sweeter macroeconomic
cure than either
the Keynesians or Monetarists could offer.
Enter stage right, supply side economics.
[MUSIC].

[MUSIC]
In the 1980 presidential election, Ronald Reagan
ran on a supply-side platform that promised
to simultaneously cut taxes, increase government tax
revenues and accelerate the rate of economic growth.
Without inducing inflation, a very sweet macro-economic cure indeed.
On the surface, the supply side approach looks very similar
to the kind of Keynesian tax cut prescribed
in the 1960s to stimulate a sluggish economy.
However, the supply siders viewed such tax cuts from a very different behavioural perspective.
Unlike the Keynesians, they did not agree that
such a tax cut would necessarily cause inflation.
Instead, the supply siders believed that the American people
would actually work much harder and invest much more if they
were allowed to keep more of the fruits of their labour.
The end result would be to increase the amount of goods and
services our economy could actually produce
by pushing out the economy's supply curve.
Hence, supply-side economics.
Most important the supply siders promised that by cutting
taxes, and thereby spurring rapid growth, a loss in tax
revenue from the tax cut would be more than offset
by the increase in tax revenues from increased economic growth.
Thus, under supply side economics, the budget deficit would actually be reduced.
Unfortunately, that didn't happen.
While the economy boomed, so too did America's budget deficit.
And as the budget deficit soared, America's trade deficit soared with it.
The so called twin deficits deeply concerned Reagan's successor George Bush particularly after the budget deficit jumped over $ 200 billion at the midpoint of his term in 1990 and the economy began to slide into recession.
To any red blooded Keynesian, this onset of recession would
have been a clear signal to engage in expansionary policy.
However, in the Bush White House, Ronald Reagan supply side advisors had been suplanted, not by Keynesians but rather, by a new breed of macroeconomic thinkers.
The so called, New Classicals.
New Classical economics is based on the controversial theory of rational expectations.
This theory says that if you form your expectations rationally, you will take into account all available information, including the future effects of activist fiscal and monetary policies.
The idea behind rational expectations is that such activist policies might
be able to fool people for a while.
However, after a while people will learn from their
experiences and then you can't fool them at all.
Central policy implication of this idea is of course profound.
Rational expectations render activist fiscal
and monetary policies completely ineffective,
so this should be abandoned.
We'll talk more about whether this theory is good economics or not the
later lesson, but it was clearly bad politics, at least for President Bush.
Indeed, Bush's new classical advisors flatly rejected
any Keynsesian quick fix to the deepening recession.
Instead they called for more stable and systematic policies based on long term goals,
rather than a continued reliance on short sided discretionary reactions.
Bush took this new classical advice.
The economy limped into the 1992 presidential election, and like Richard Nixon in 1960, Bush lost to a Democrat promising to get the economy moving again.

What is perhaps most interesting about
this transition of power is that
Bill Clinton actually did very little to
stimulate the economy.
The mere fact however, that Clinton
promised a
more activist approach helped restore
business and consumer confidence.
The same time congressional passage of
Clinton's deficit reduction legislation in
1993 sent
Wall Street a clear signal that
his administration was serious about
budget balance.
Together these factors helped accelerate a
recovery that
had already begun by the end of Bush's
term.
These factors also set the stage for
Clinton's remarkably easy re-election in
1996, as well as the longest economic
recovery in peace-time history.
>> The next decade would not however, be
anywhere near as kind or prosperous as the
1990s.
Shortly after George Walker Bush took
office in 2001, the
US economy would fall into recession while
by years end, America
would be hit by a 9/11 terrorist attack
that would
catapult the country into two expensive
wars in Iraq and Afghanistan.
In that same year of 2001, China joined
the World Trade Organization and began
flooding America with illegally subsidized
exports.
Over the next ten years, the US would
shutdown over 50,000 factories, lose more
than $5 million
manufacturing jobs and see it's historical
annual rate
of GDP growth cut by a full 2 3rds.
On top of two wars in a burgeoning trade
deficit, the US
economy would also be hit in 2007 with a
massive collapse of a housing bubble and
soon find itself in the worst recession
since the great depression of the 1930s.
To pull a nation out of recession in slow
growth, the
White House and Congress would orchestrate
the biggest fiscal stimulus in history.
While the Federal Reserve
would use new monetary policy tools like
quantitative easing
to likewise break the record for a huge
monetary stimulus.
All these fiscal and monetary stimuli
would be
to little avail however, and in the 2010s
macro-economists
would once again find themselves in a
rapidly changing
global economy where traditional fiscal
and monetary policy solutions
were no longer working very well and where
countries around the globe face deeper
seated structural issues seemingly
resistant to Keynesian solutions.
Of course the major purpose of this
introductory
course in macroeconomics, is to help all
of
us better understand the incredibly
complex global economic
forces now effecting both our personal and
professional lives.
In the meantime, please remember that
economics is
not something to memorized but rather
something to conceptualize.
As you study it, think about it too,
your job and your business might just
depend on it.
[MUSIC]
I'm Peter Navarro from University of
California Irvine.
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