The Nature of Macroeconomics

Macroeconomic Questions

Microeconomic Questions	Macroeconomic Questions
Should I go to business school or take a job right now?	How many people are employed in the economy as a whole this year?
What determines the salary offered by Citibank to Cherie Camajo, a new MBA?	What determines the overall salary levels paid to workers in a given year?
What determines the cost to a university or college of offering a new course?	What determines the overall level of prices in the economy as a whole?
What government policies should be adopted to make it easier for low-income students to attend college?	What government policies should be adopted to promote employment and growth in the economy as a whole?
What determines whether Citibank opens a new office in Shanghai?	What determines the overall trade in goods, services, and financial assets between the United States and the rest of the world?

Macroeconomics

GD - Great Depression, 1930s

A depression is a very deep and prolonged downturn. The Great Depression lasted more than 13 years and 25 % unemployment and 27% fall in GDP.

The Soaring Twenties

Stock Market

Drought, Dust Bowl

Agriculture-related Banks

Property Market

Gold-based Currency

GR - Great Recession, 2008

Recessions are periods of economic downturns when output and employment are falling, usually measured by NBER, and if the output falls in two subsequent quarters.

Housing Market

Home-Ownership

Sub-Prime Loan

Banking Deregulation

Capital In-flow

Derivative Market

Business-Cycle Peak	Business-Cycle Trough
no prior data available	December 1854
June 1857	December 1858
October 1860	June 1861
April 1865	December 1867
June 1869	December 1870
October 1873	March 1879
March 1882	May 1885
March 1887	April 1888
July 1890	May 1891
January 1893	June 1894
December 1895	June 1897
June 1899	December 1900
September 1902	August 1904
May 1907	June 1908
January 1910	January 1912
January 1913	December 1914
August 1918	March 1919
January 1920	July 1921
May 1923	July 1924
October 1926	November 1927
August 1929	March 1933
May 1937	June 1938
February 1945	October 1945
November 1948	October 1949
July 1953	May 1954
August 1957	April 1958
April 1960	February 1961
December 1969	November 1970
November 1973	March 1975
January 1980	July 1980
July 1981	November 1982
July 1990	March 1991
March 2001	November 2001
December 2007	To be determined

Dec 2009

Comparing the Great Recession to the Great Depression

Measures of economic activity and world industrial production during the Great Depression and the Great Recession
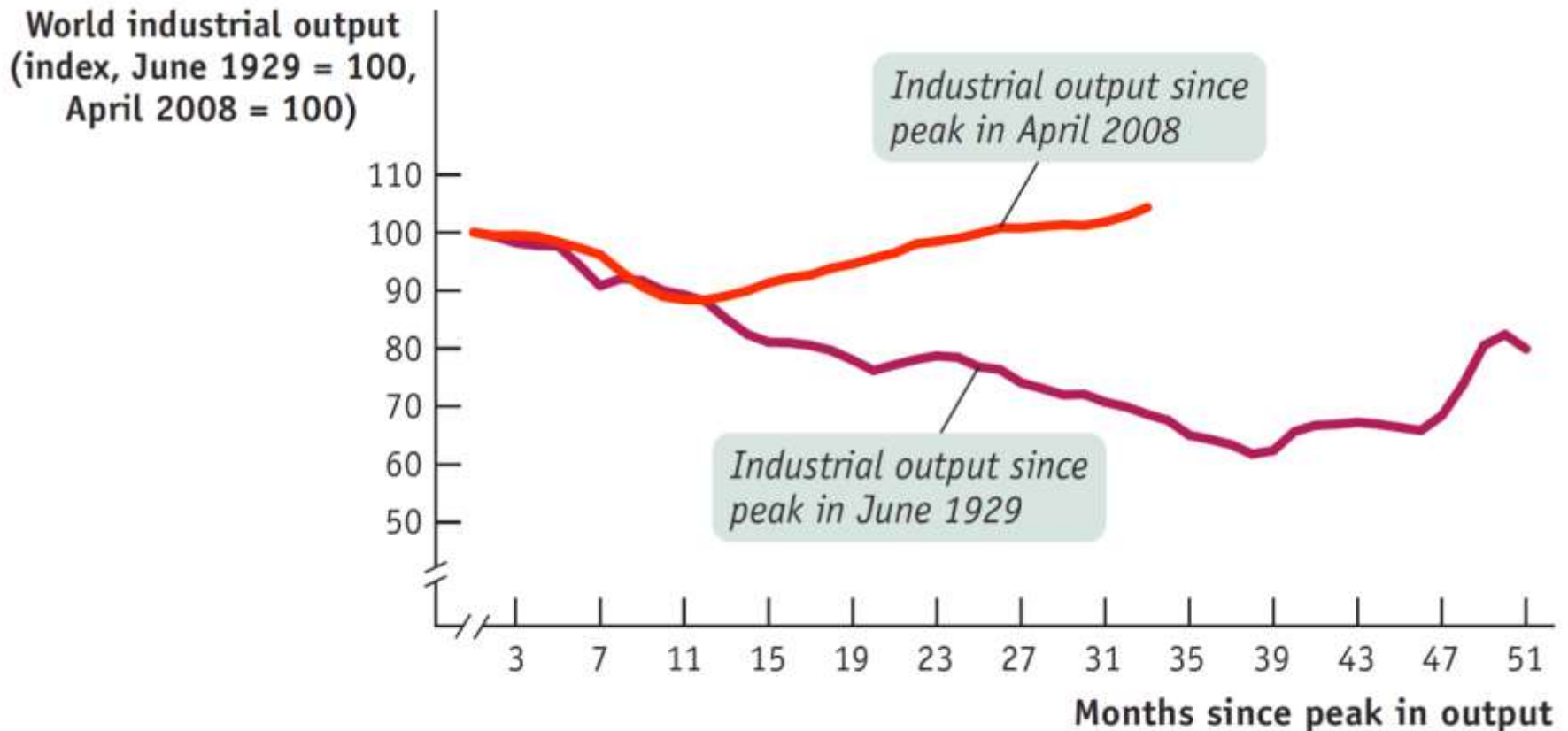
Source: Barry Eichengreen and Kevin O'Rourke (2009), "A Tale of Two Depressions." © VoxEU.org; CPB Netherlands Bureau for Economic Policy Analysis World Trade Monitor.

Hoovervilles

During the Great Depression, "Hoovervilles" sprang up across America, named after the economically clueless President Herbert Hoover.

Macroeconomics

Classical economics: Self-regulating : Problems such as unemployment are resolved without government intervention through the working of the invisible hand.

Post-1930s conventional wisdom

Keynesian economics: Economic slumps are caused by inadequate spending, and they can be mitigated by government intervention.

"**The long run is a misleading guide to current affairs.**
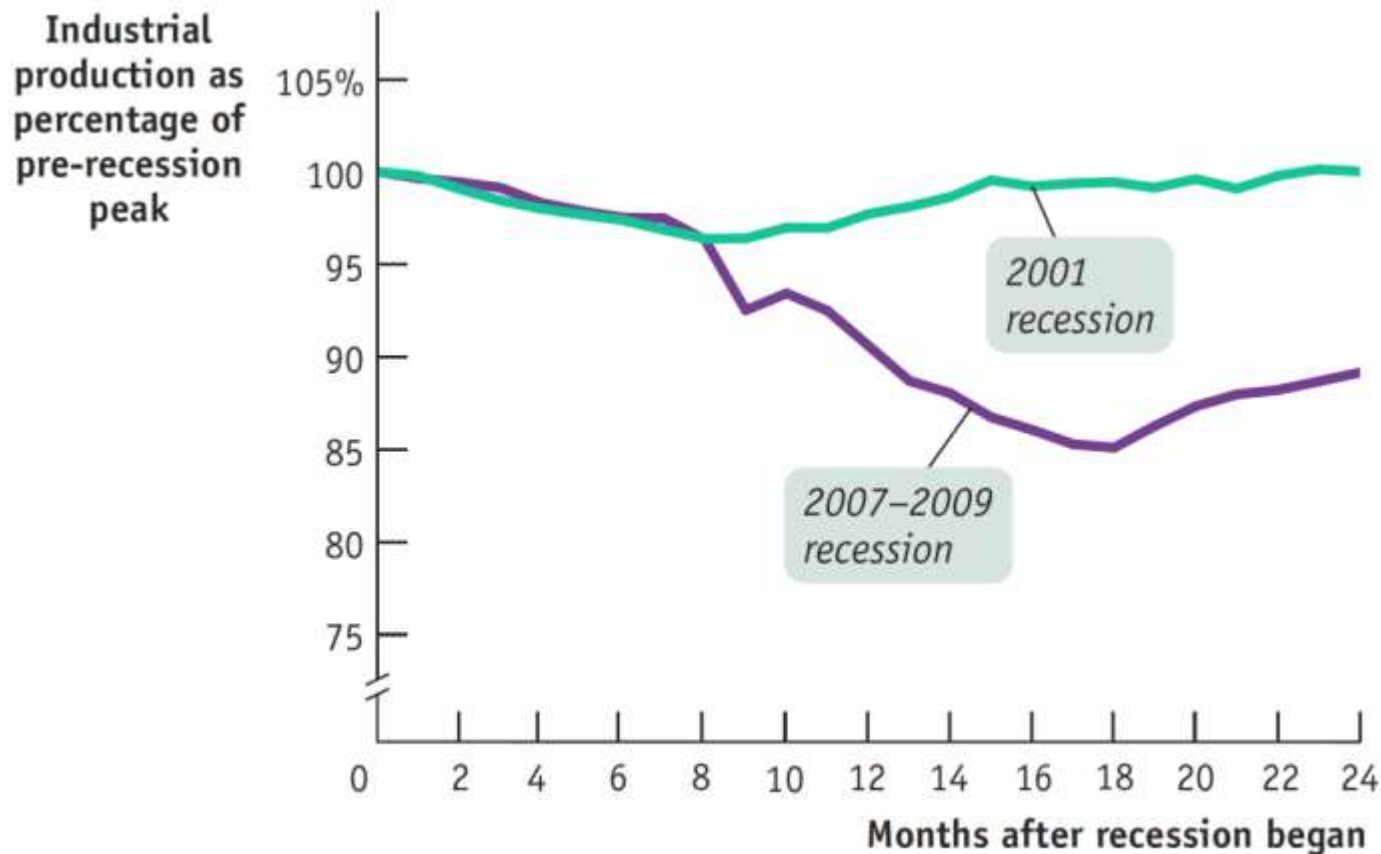
In the long run we are all dead.

Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is past the ocean is flat again."

John Maynard Keynes, *A Tract on Monetary Reform* (1923) Ch. 3

Not All Recessions Are Created Equal

The 2001 recession (Dotcom Bust) was milder than the 2007–2009 (Housing crisis).

Source: Federal Reserve Bank of St. Louis.
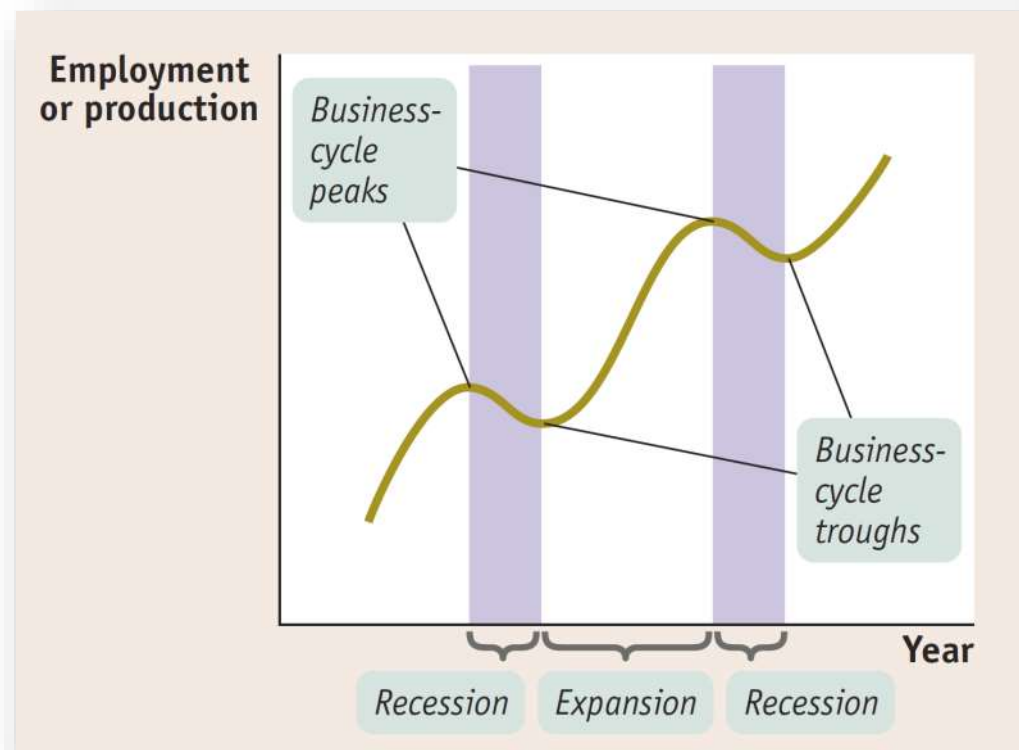
Charting the Business Cycle

"Please stand by for a series of tones.

The first indicates the official end of the recession;

the second, prosperity; and

the third, **the return of the recession."**

The Business Cycle

The point at which the economy turns from expansion to recession is a ***business-cycle peak.***
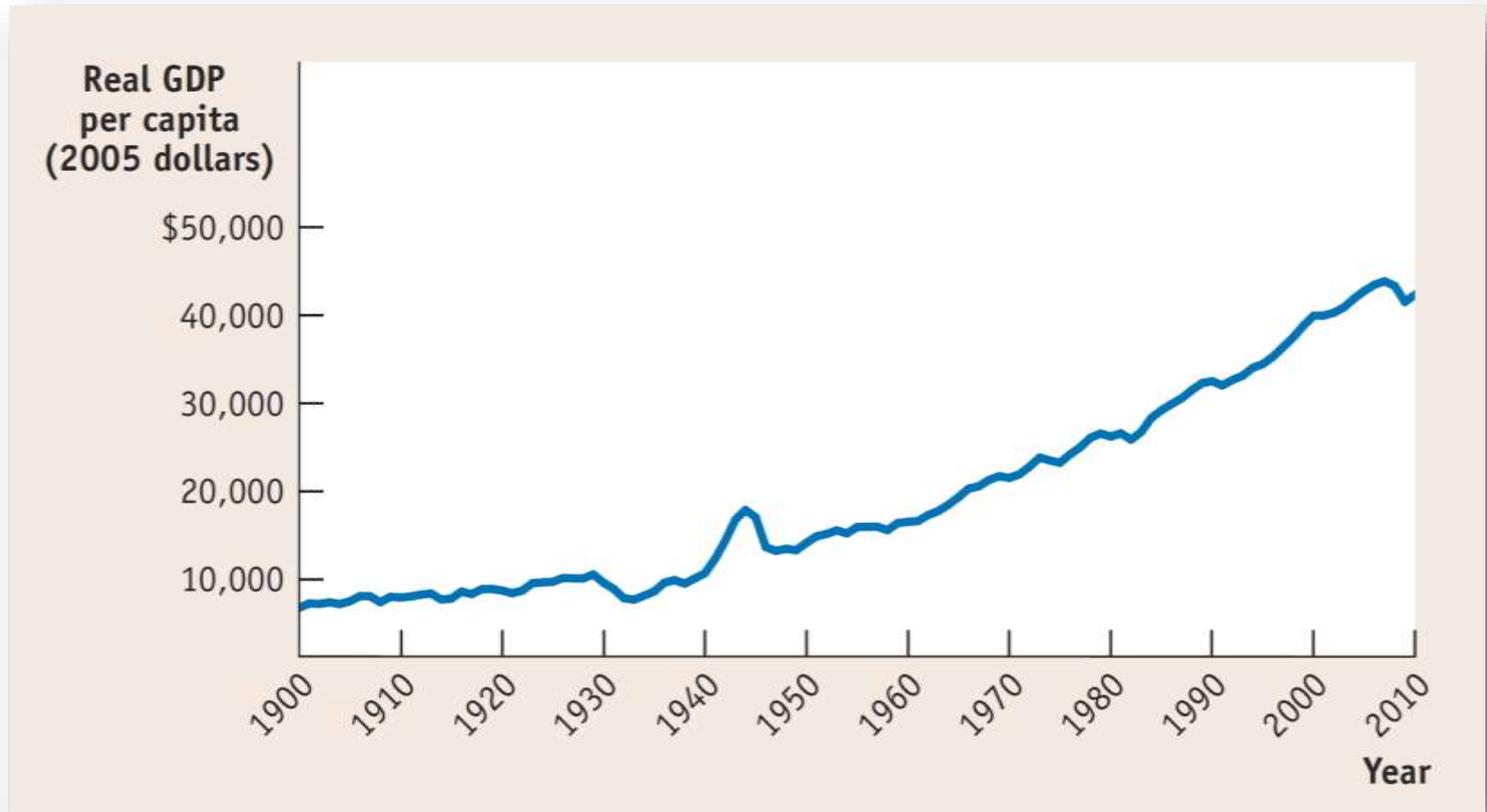

The point at which the economy turns from recession to expansion is a ***business-cycle trough. (not: t<u>h</u>rough)***
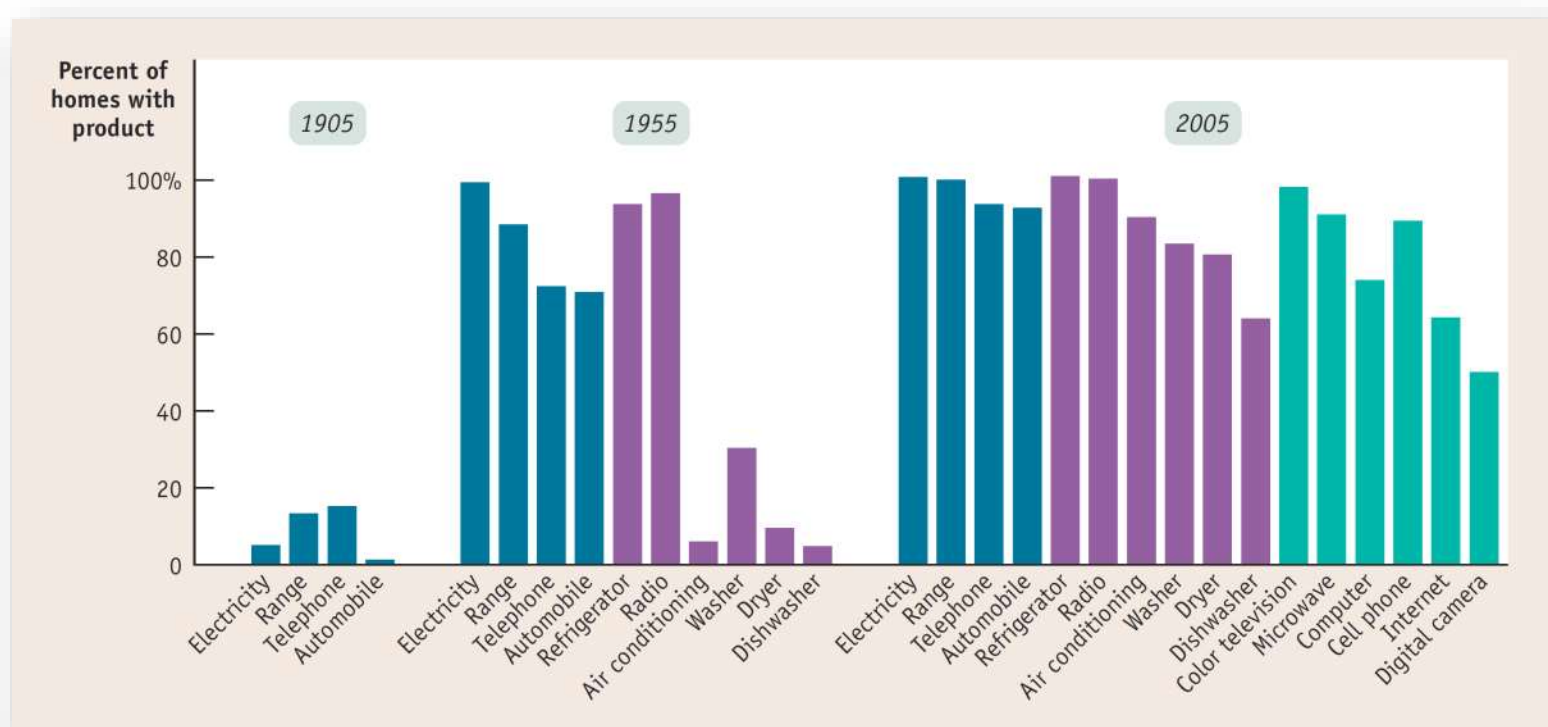
Growth, the Long View

Americans have become able to afford many more material goods over time thanks to long-run economic growth.
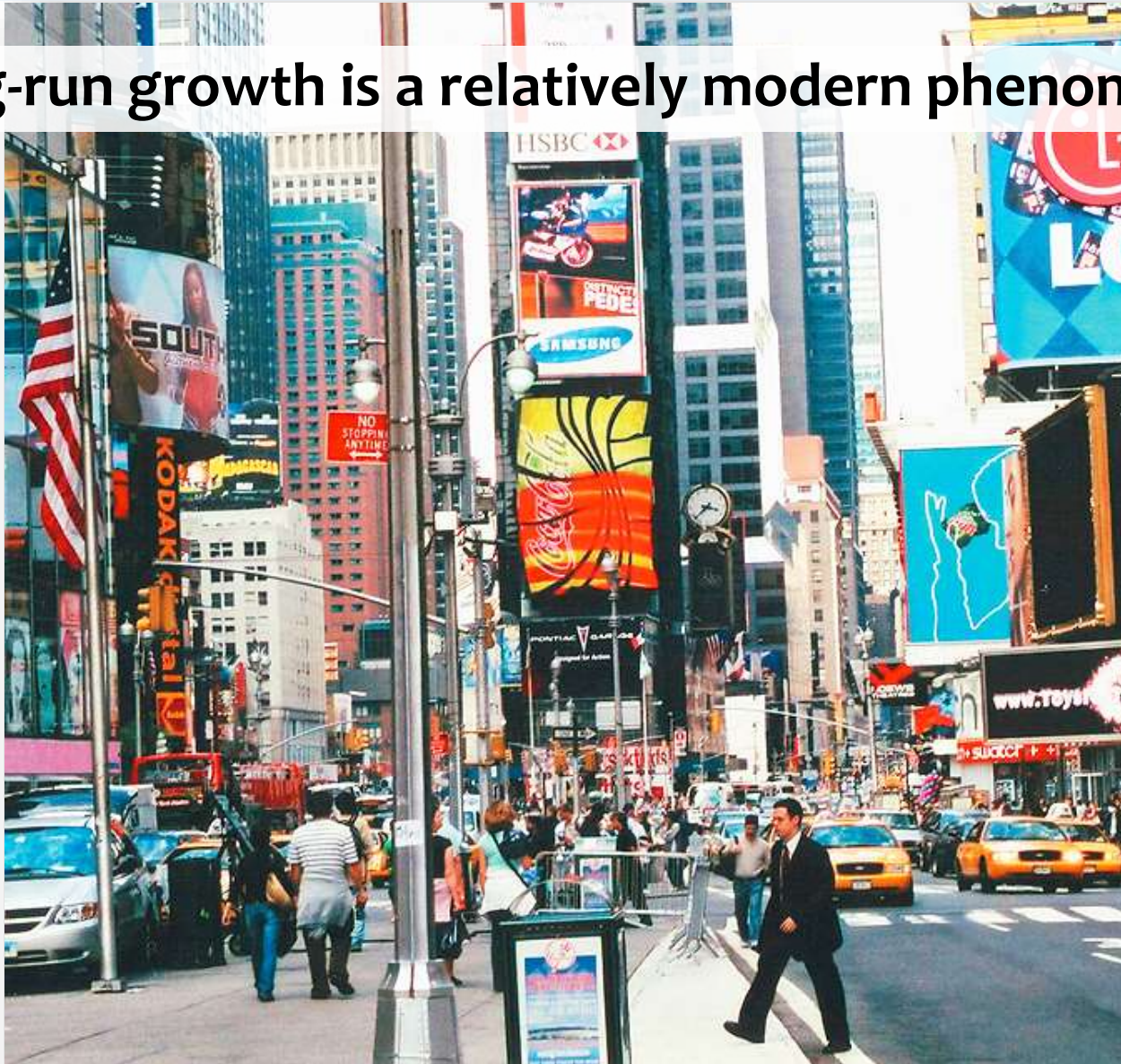
Long-Run Economic Growth

Long-run economic growth is the sustained upward trend in the economy's output over time.

Source: W. Michael Cox and Richard Alm, "How Are We Doing?" *The American* (July/August 2008).
http://www.american.com/ archive/2008/july-august-magazine-contents/how-are-we-doing

Growth, the Long View

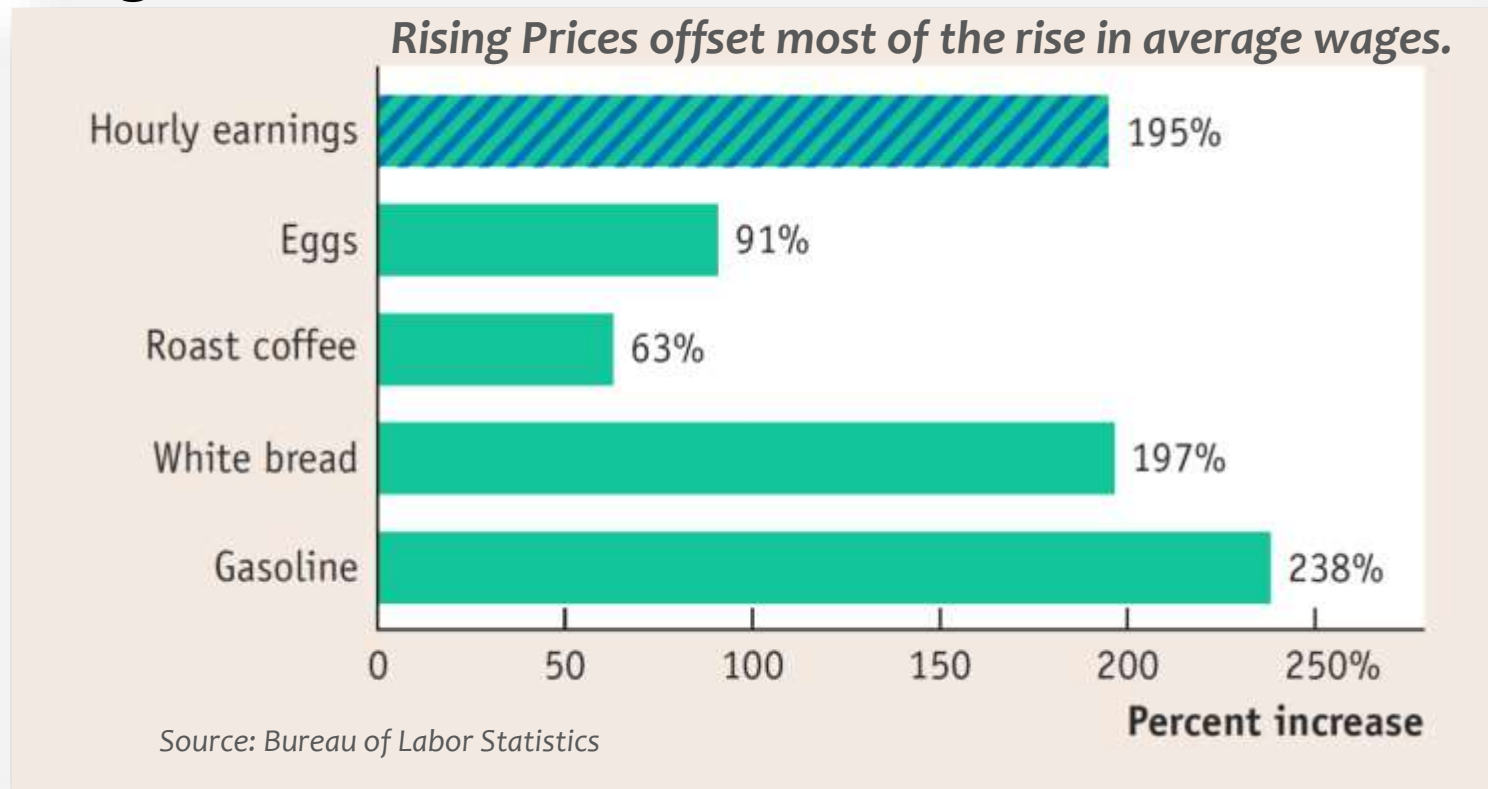**Long-run growth is a relatively modern phenomenon.**

Inflation and Deflation

A rising overall level of prices is *inflation.*

A falling overall level of prices is *deflation.*

The economy has *price stability* when the overall level of prices changes slowly or not at all.

Rising Prices offset most of the rise in average wages.

	Percent increase
Hourly earnings	195%
Eggs	91%
Roast coffee	63%
White bread	197%
Gasoline	238%

Source: Bureau of Labor Statistics

US Government

Federal Government

<u>Expenditures:</u>

Social Security Benefits, Medicare, Medicaid, Defense and Security, interests on National Debt

<u>Revenues:</u>

Personal Income Taxes, Corporate Income Taxes,

Social Security Taxes

State and Local Government:

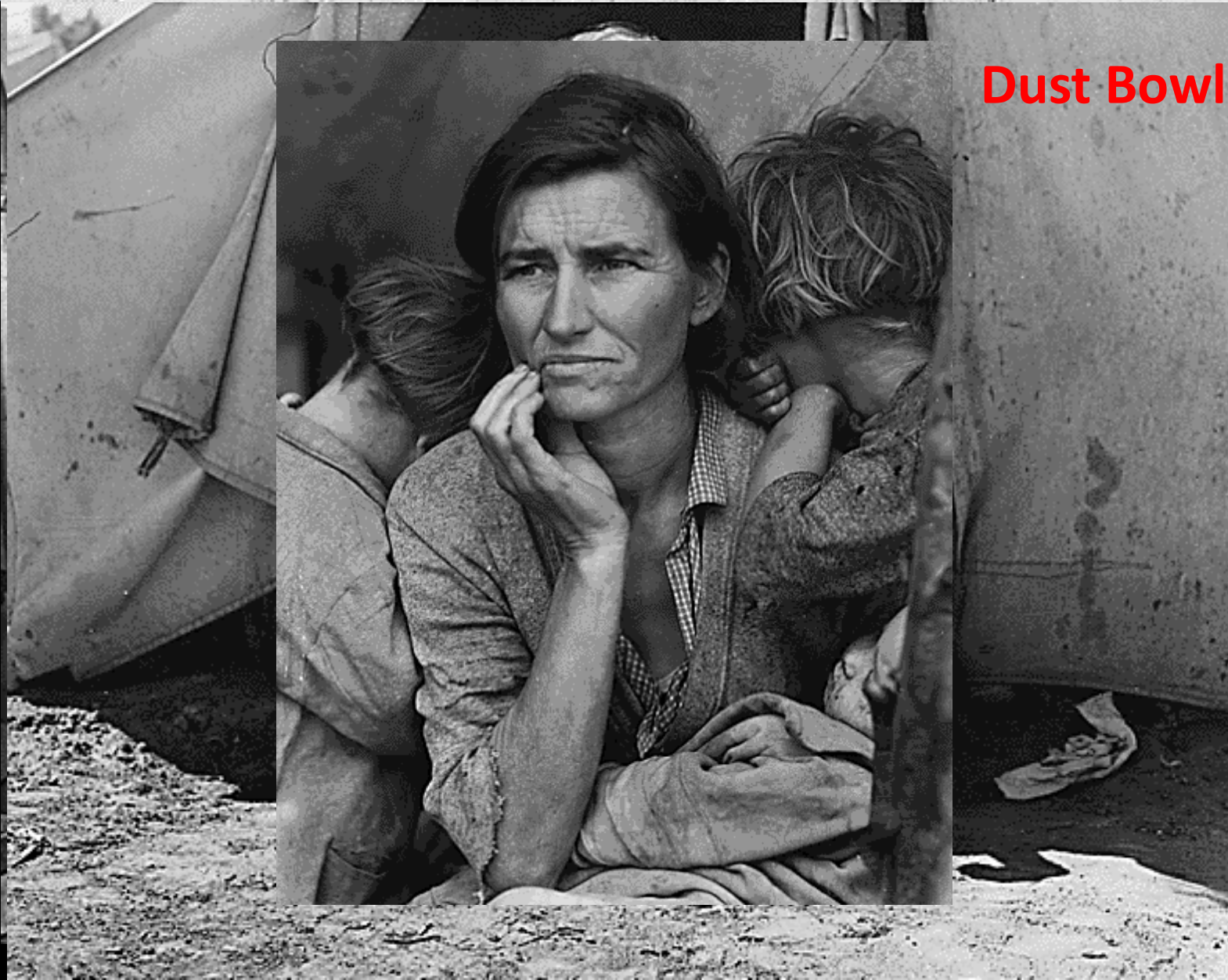<u>Expenditures:</u> Education, Highways, Public Welfare benefits

<u>Revenues:</u> Sales Taxes, Corporate income taxes, Transfers from Federal government, Property Taxes, Individual income taxes

Budget Deficit and National Debt

Expenditures > Revenues

Debt: Accumulated Deficit

Images of the Depression

Dust Bowl