

Lecture 1: Introduction

İlhan Güner | University of Kent

EC566 | Macroeconomics for Business

EC566: Macroeconomics for Business

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Assessment

- 20% Coursework
 - 2 short essays (10% each)
- 80% 2hr exam

Coursework essay submissions:

- Week 19
- Week 24

Coursework Essay - Guidelines

- 750 word limit – 10% allowance in excess of word limit is permitted
- Structure: Brief introduction, main body, brief conclusion
- Include a bibliography (does not count in word count)
- For more information here is a good starting point:
<https://www.kent.ac.uk/learning/resources/studyguides/planningandwritingessays.pdf>

Assessment is electronic only:

- Submit via turnitin
- Try to avoid high similarity scores
- Use sensibly sized font (e.g.12pt)
- Draw diagrams where relevant

Coursework Essays - Topics

- The lists of essay topics will be available in Moodle
- One essay to be chosen out of three topics in Week 19
 - List of topics is available immediately
- One essay to be chosen out of three topics in Week 24
 - List will be made available in week 19.
- Start thinking and preparing early
- Get consultation and guidance - make use of my office hours

Key factors for success:

- Read the core text:
 - In addition to core text, you may also use additional recommended text books
- Prepare for seminars – Use them to test your understanding of the lecture
- Read a good daily newspaper - Financial Times & Economist

Overview

Topics

- Microeconomics review
 - Labor discipline model- Unit 6.6, 6.7
 - Price setting firms- Unit 7
 - Supply and demand – Unit 8
- The labor market – Unit 9
- Banks, money and the credit market – Unit 10
- Economic fluctuations - Unit 13
- Fiscal policy – Unit 14
- Monetary policy – Unit 15
- Long-run economic performance – Unit 16
- International trade and globalization – Unit 18

If time permits, we will cover a selection of

- Economic inequality – Unit 19
- Economics of the environment – Unit 20
- Markets, efficiency, and public policy – Unit 12
- Innovation, information, and the networked economy – Unit 21
- The Great Depression – Unit 17

Microeconomics review

We will learn

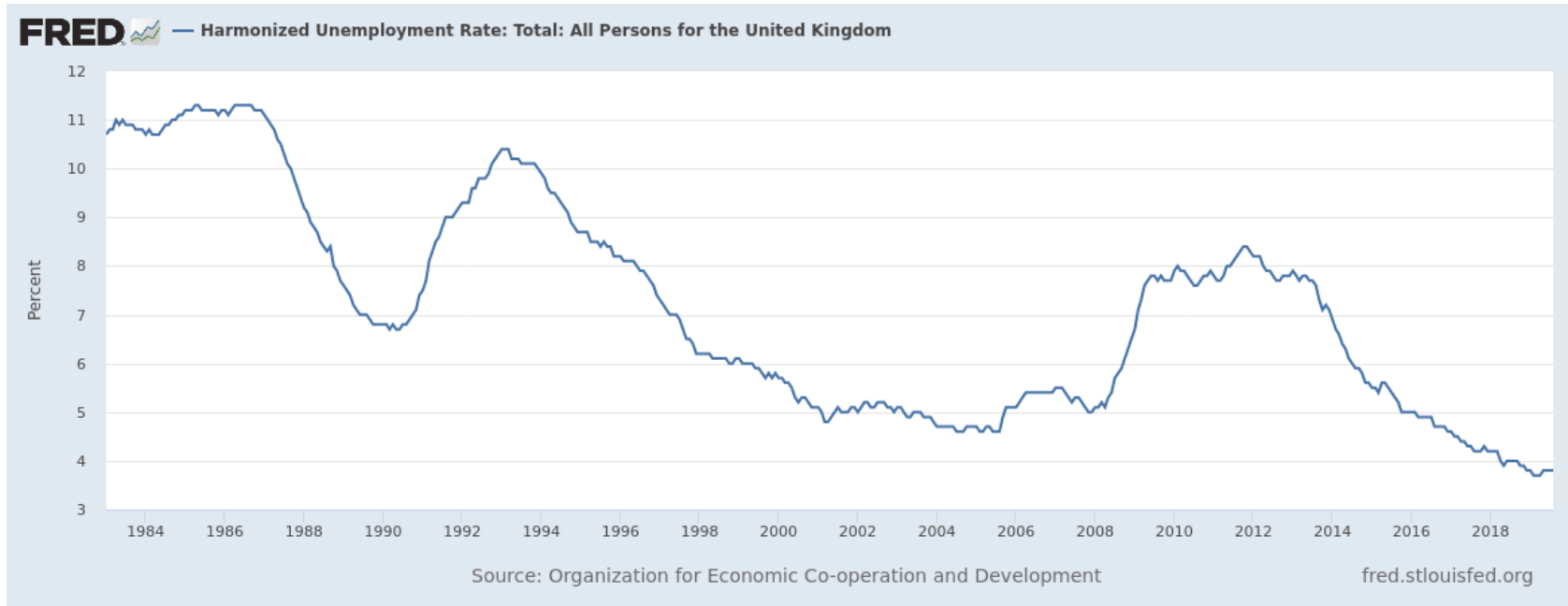
- how wages are determined within a firm,
- how prices are set when a firm has a price setting power,
- how prices are determined when each individual firm and each consumer has no power to set prices.

The labor market

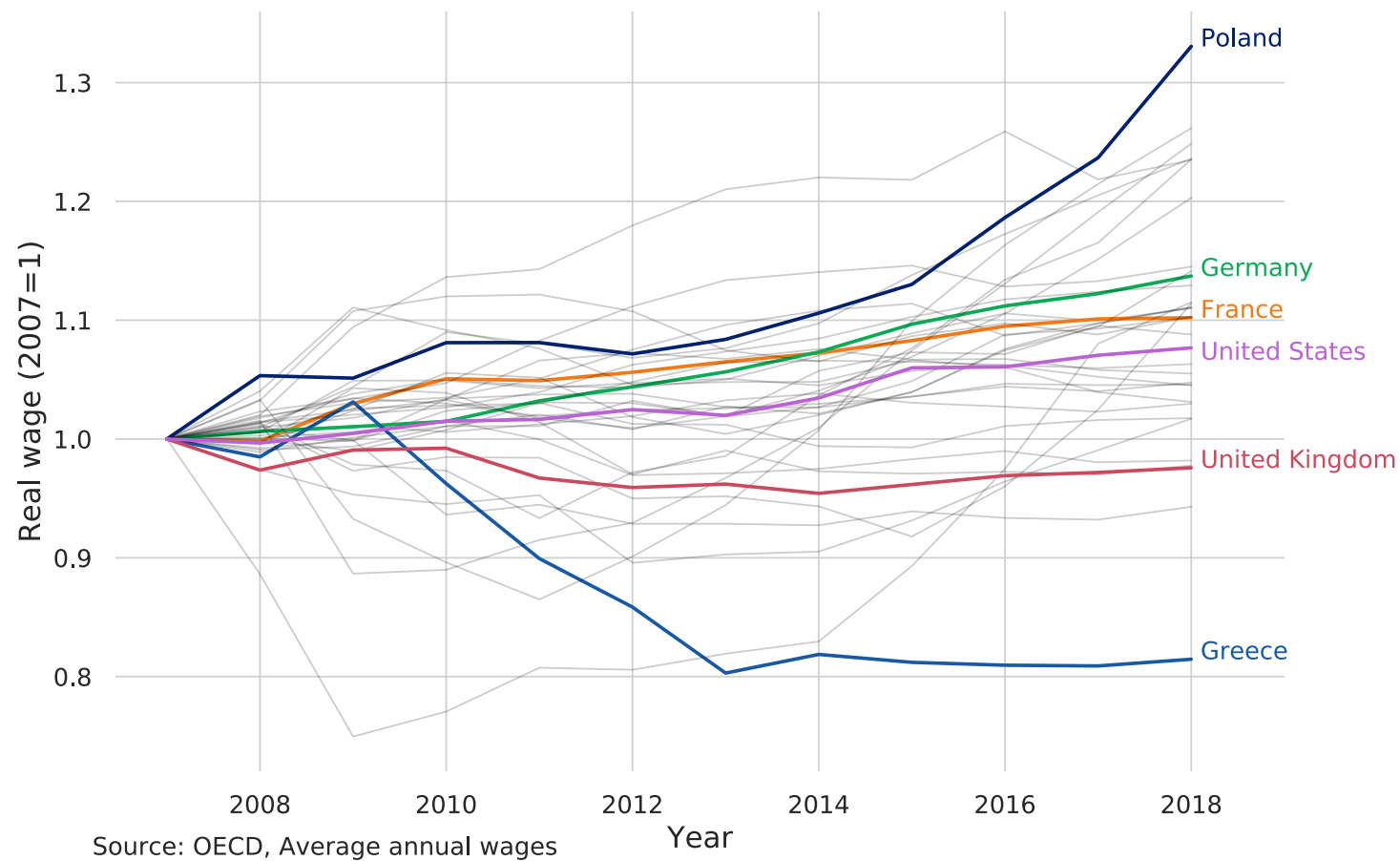
We will learn

- economy wide determination of wages, employment, and the distribution of income
- how wages and unemployment rate are related
- how wage setting and price setting process determines real wages and the level of unemployment in the economy

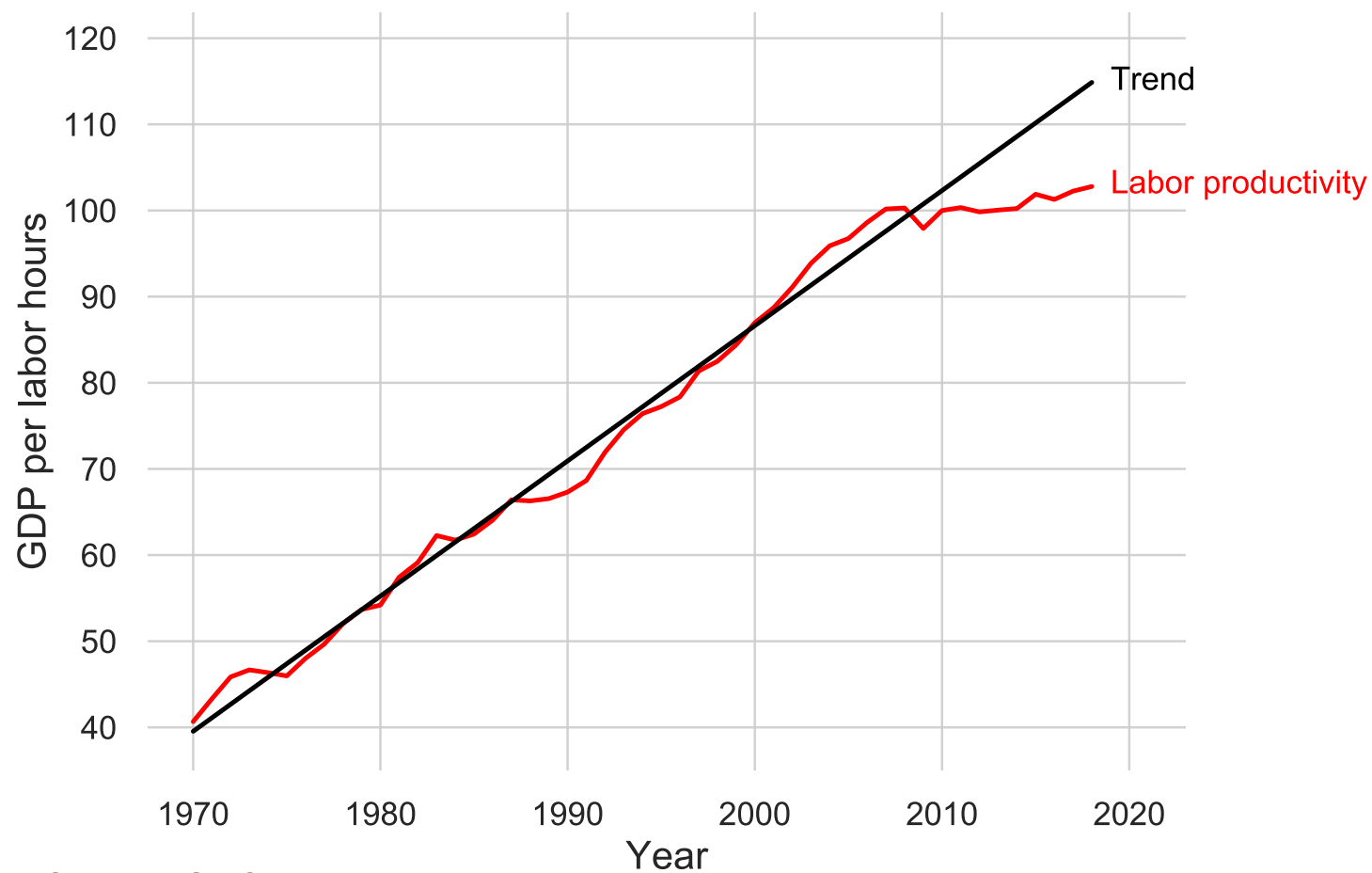
Unemployment rate



Real wages



Productivity in the UK



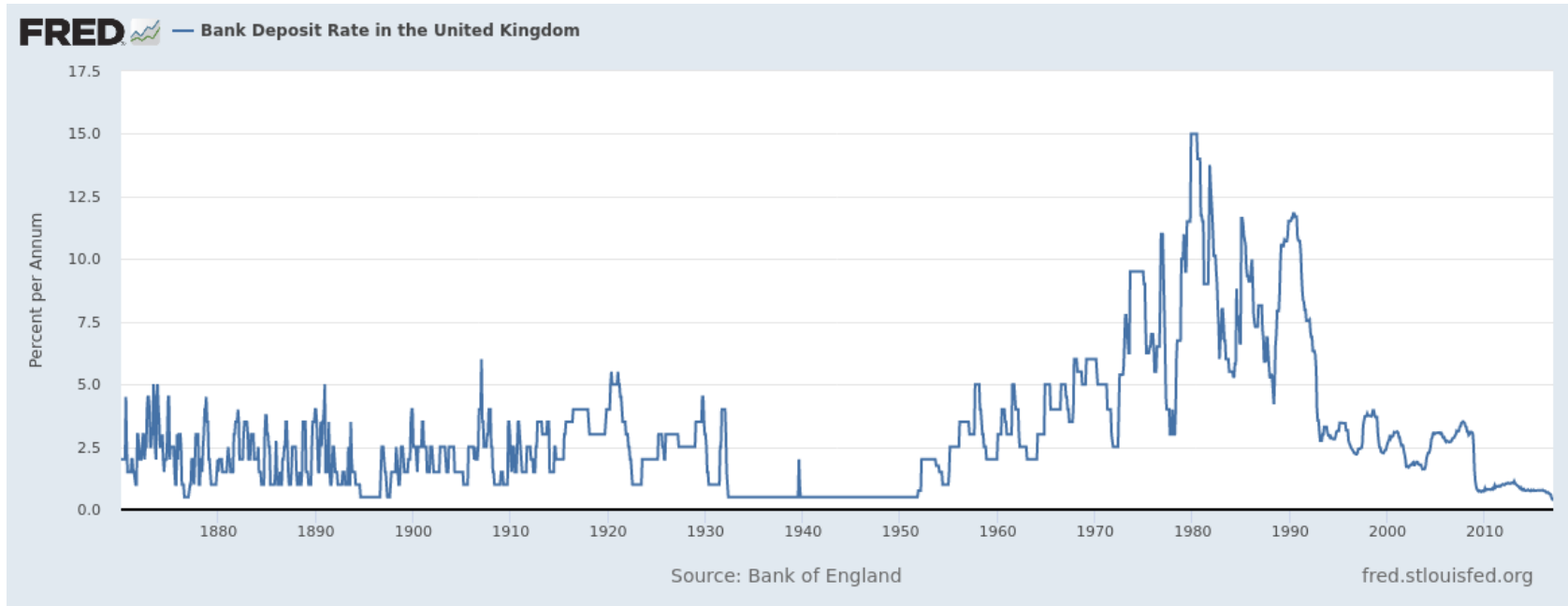
Source: OECD

The credit market

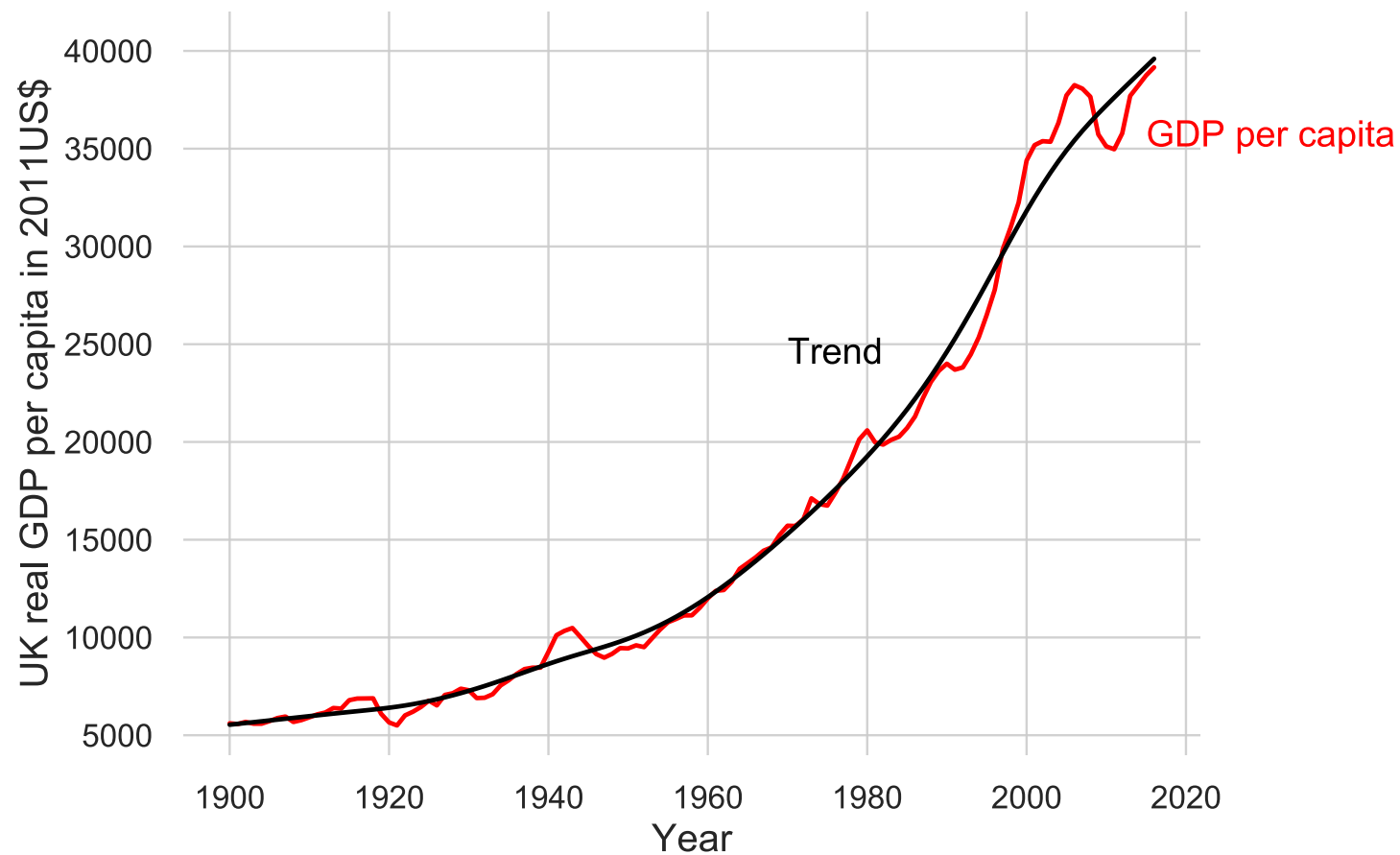
We will learn

- role of financial institutions on funneling consumer savings into investment
- principal agent problem in the borrowing-lending relationship
- the process of money creation
- the role of central banks
- determination of the interest rate charged by the banks

Deposit rate



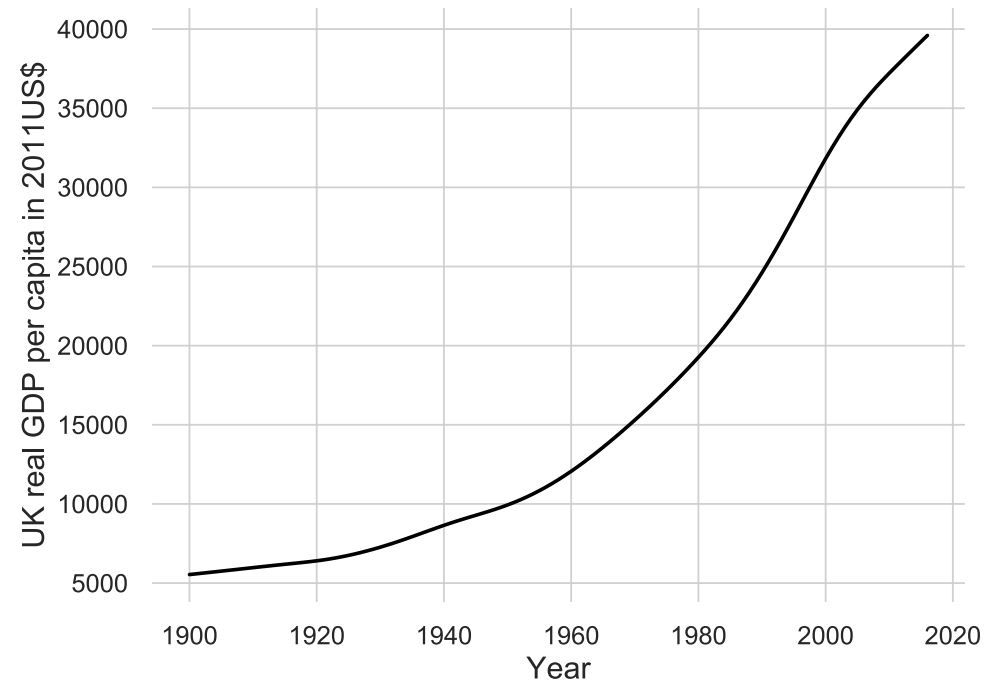
Economic fluctuations



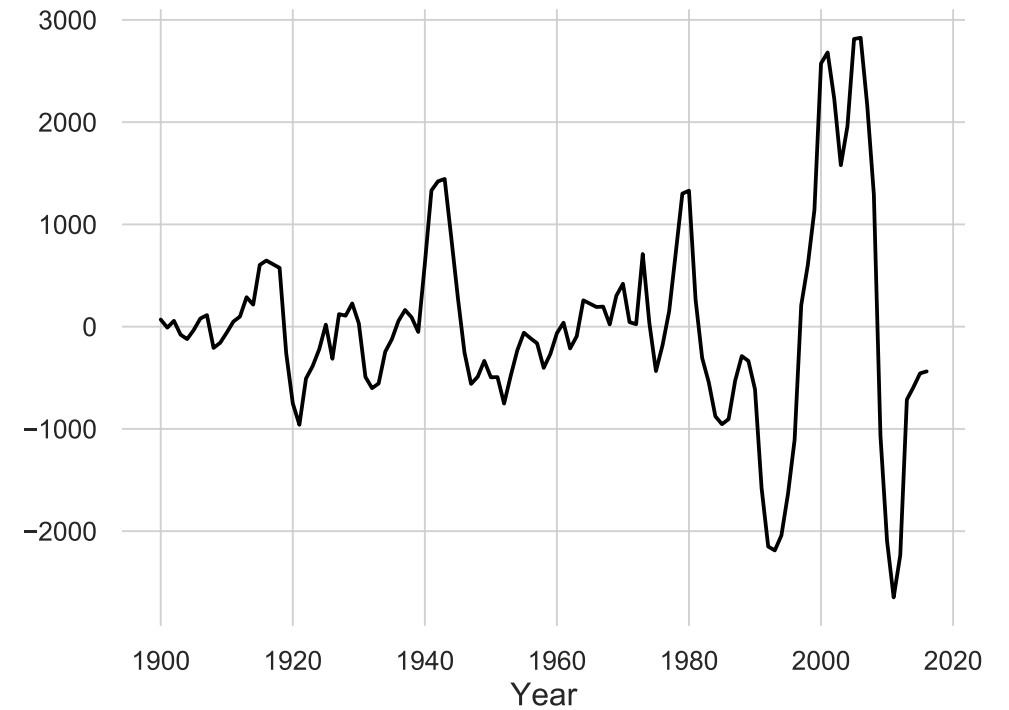
Source: Maddison Project Database (MPD) 2018

Business Cycles

Trend

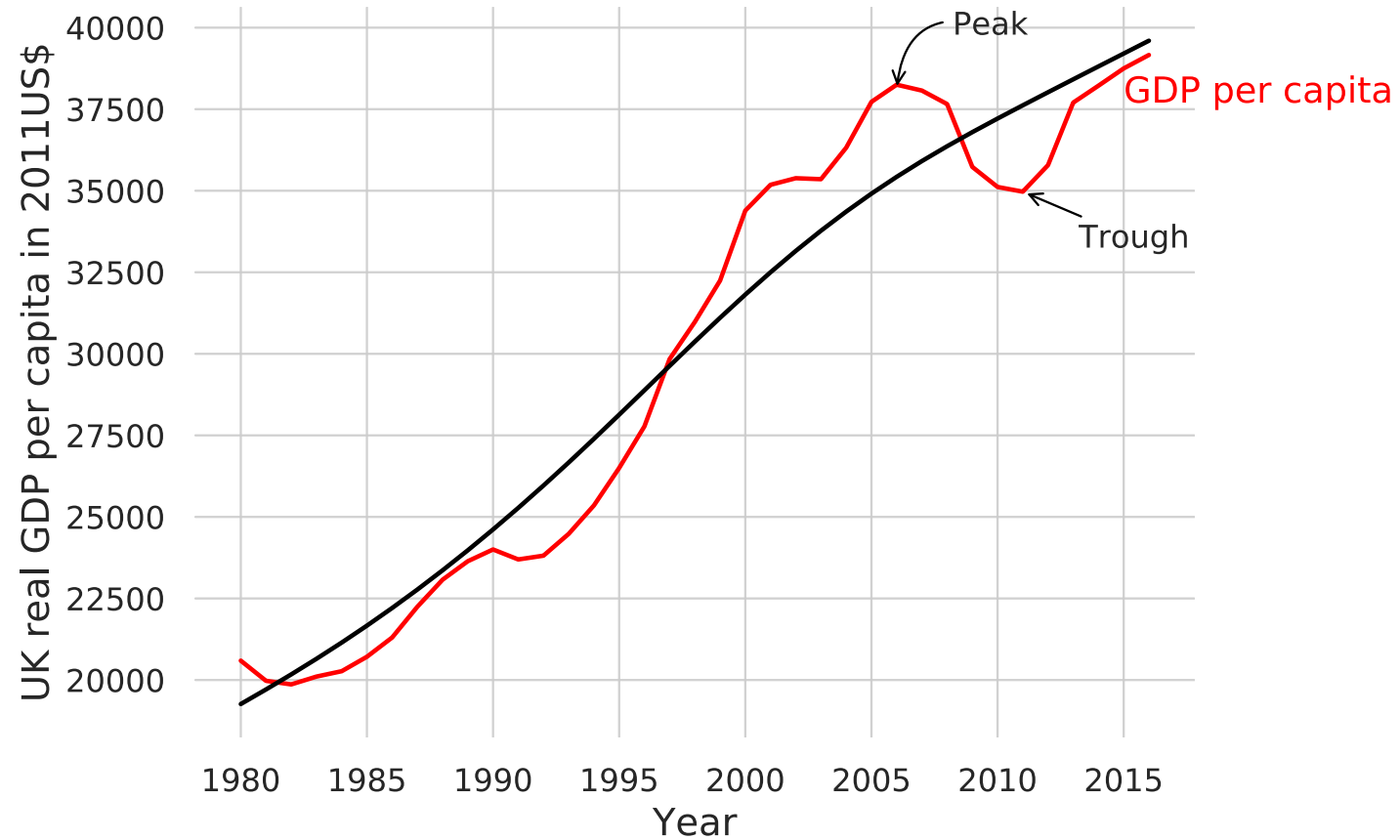


Cycle



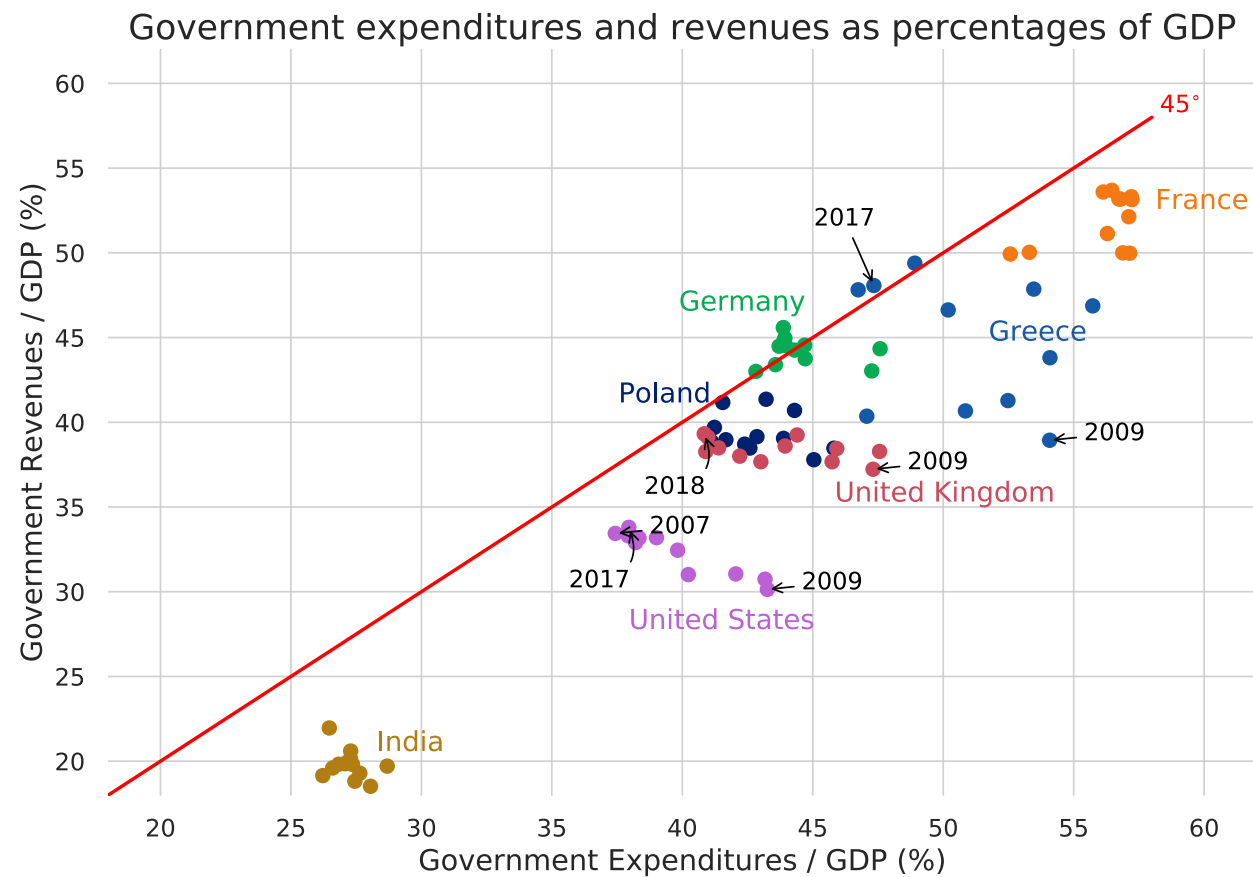
Source: Maddison Project Database (MPD) 2018

Peak and trough of a business cycle



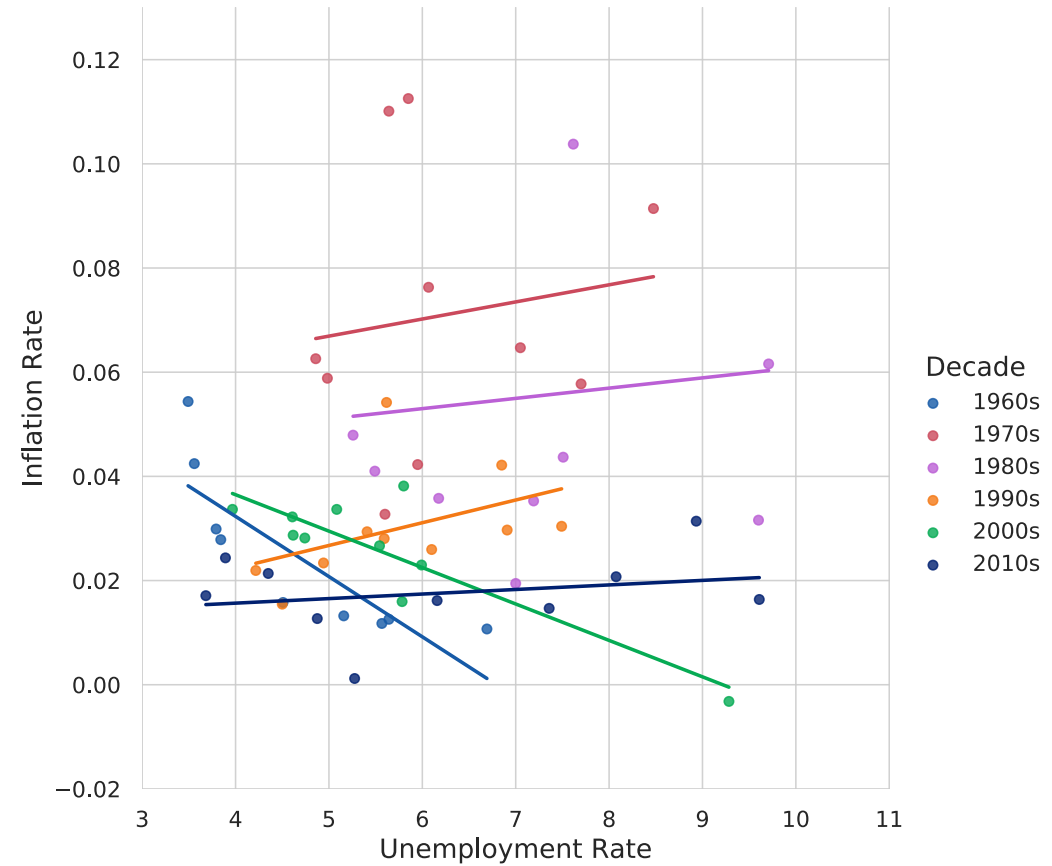
Source: Maddison Project Database (MPD) 2018

Fiscal Policy



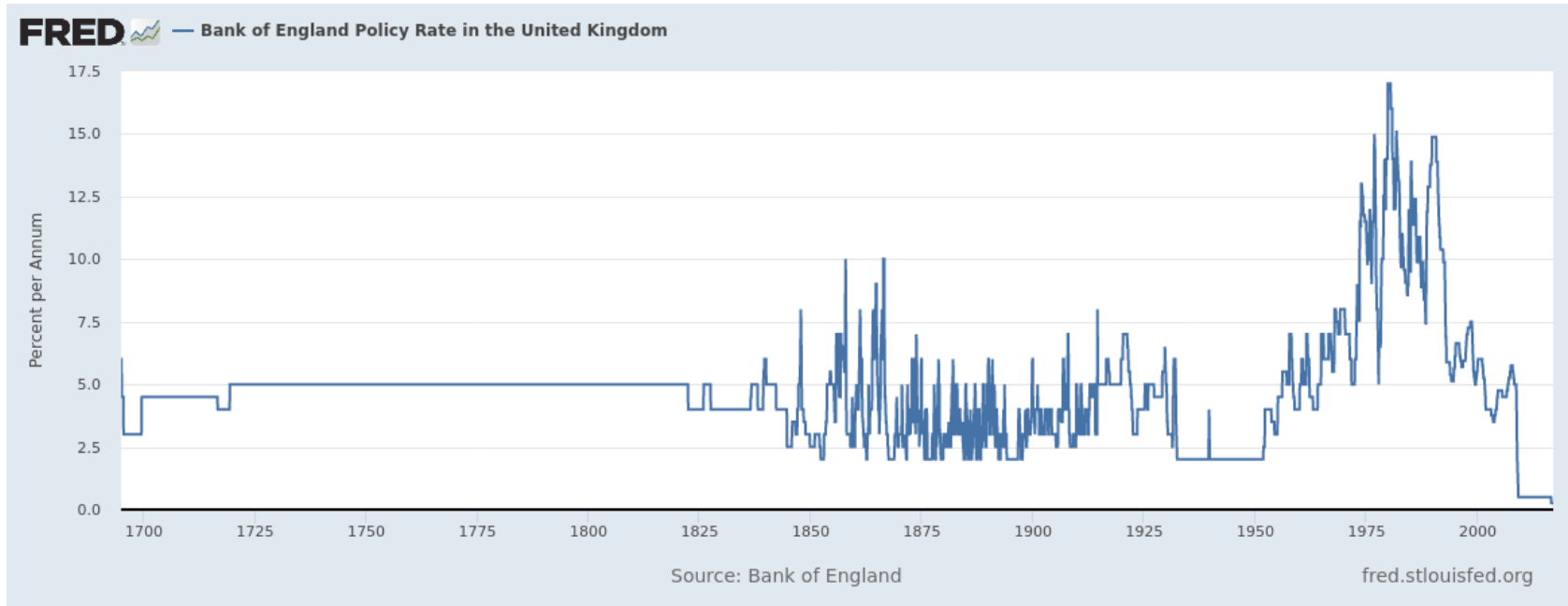
Source: OECD, Government at a glance

Philips Curve



Source: Consumer price index for all urban consumers (BLS) and own calculations
Unemployment Rate (BLS)

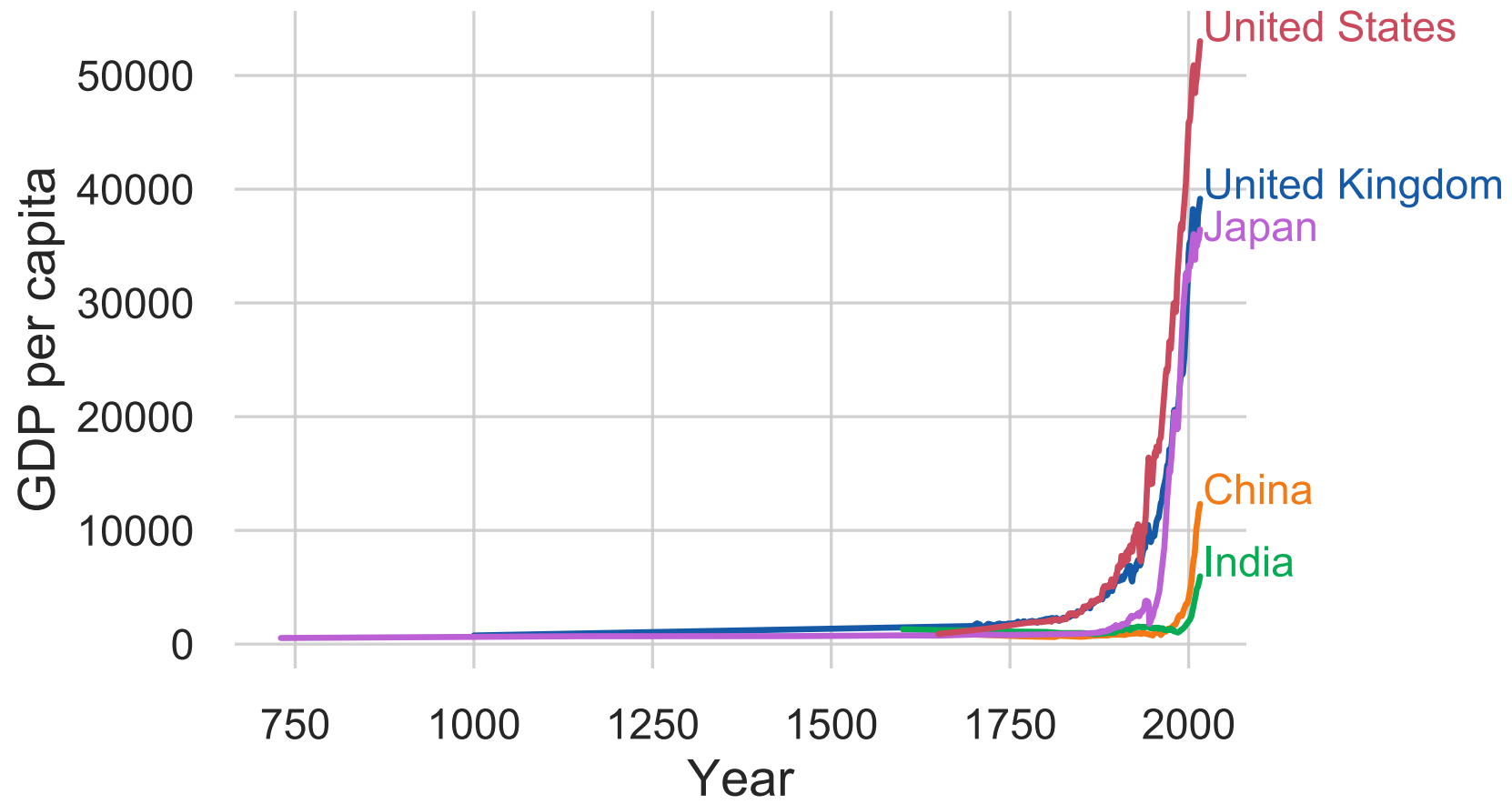
Monetary Policy



Measuring income and living standards

- Gross Domestic Product (GDP) = A measure of total income and output of the economy in a given period. Usually expressed in per-capita terms (as an average income).
- GDP per capita \neq Disposable income
- Disposable income = Total income – taxes + government transfers
- Both are imperfect measures of well-being

GDP per capita over time

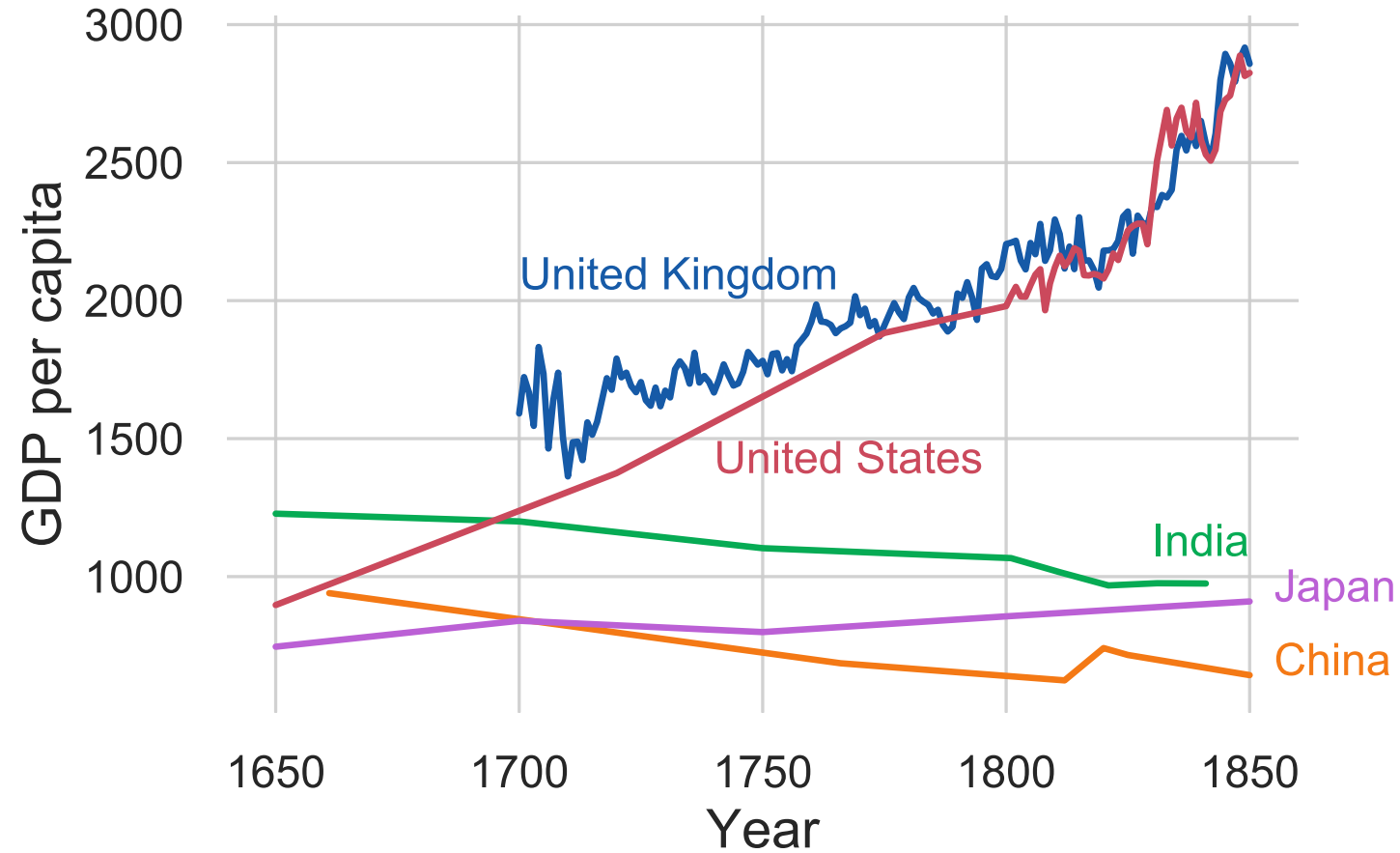


Source: Maddison Project Database (MPD) 2018

Timing of growth

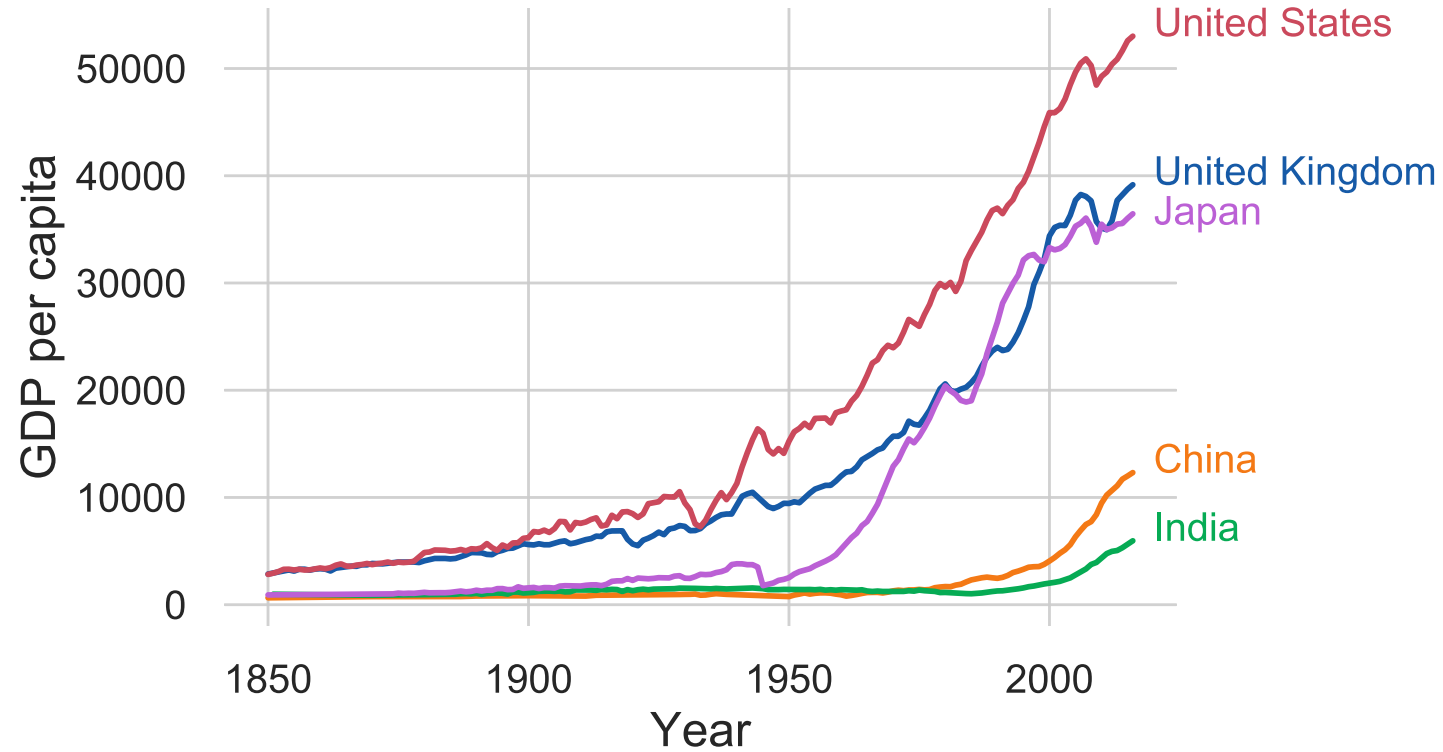
- Growth take-off occurred at different points in time for different countries:
 - Britain was the first country to experience sustained economic growth. It began around 1650.
 - In Japan, it occurred around 1870.
 - The kink for China and India happened in the second half of the 20th century.
- In some economies, substantial improvements in people's living standards did not occur until they gained independence from colonial rule or interference by European nations.

Britain: first to sustained economic growth



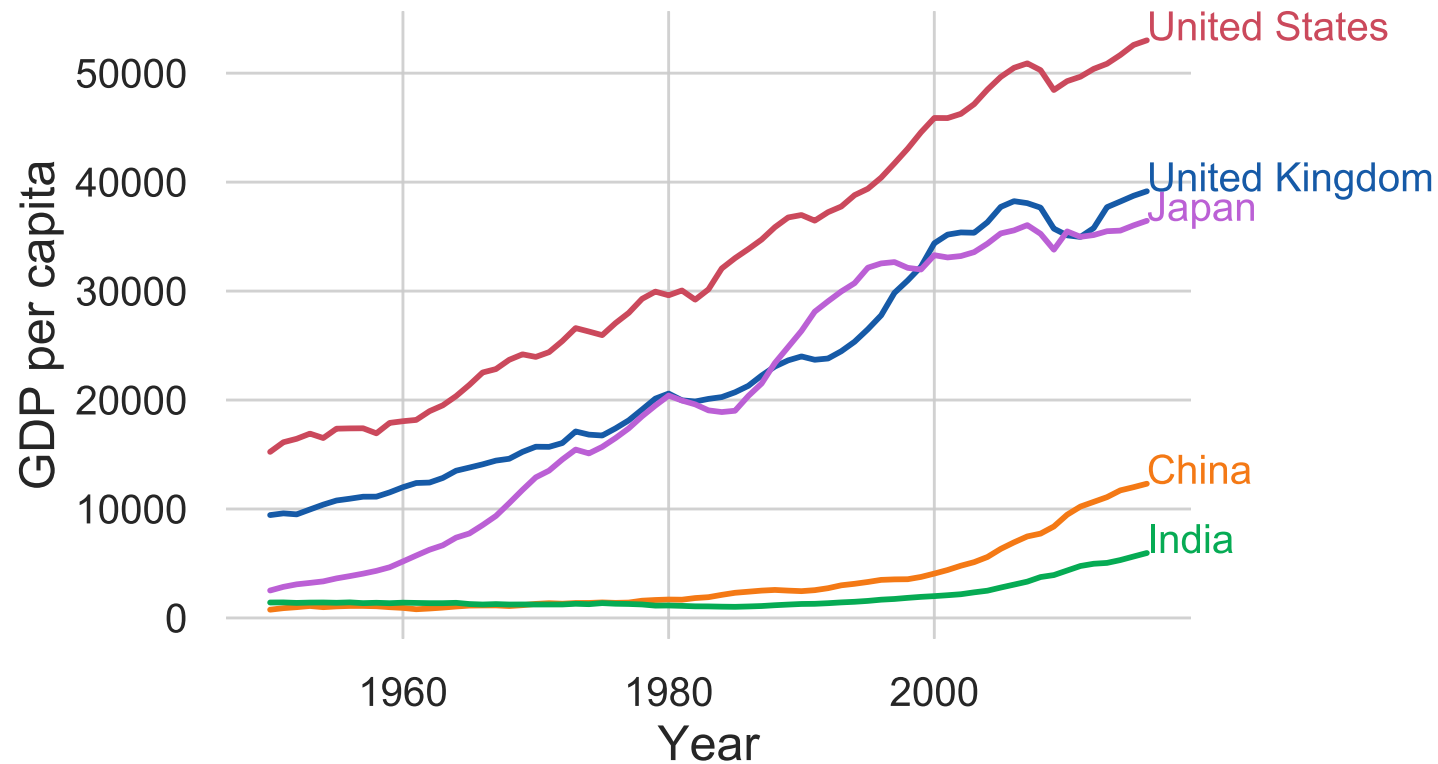
Source: Maddison Project Database (MPD) 2018

Sustained growth in Japan occurred around 1870



Source: Maddison Project Database (MPD) 2018

The kink for China and India happened in the second half of the 20th century



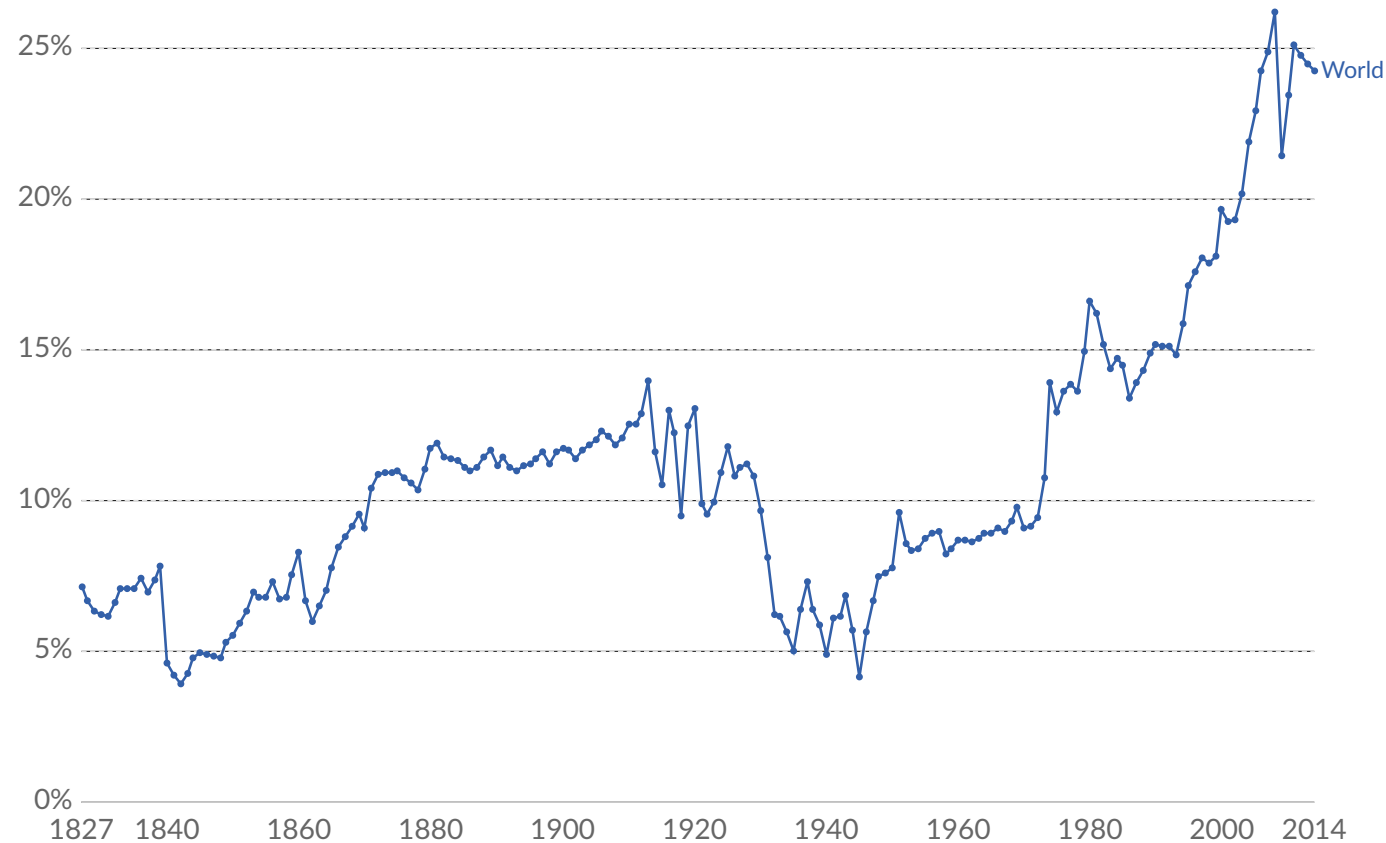
Source: Maddison Project Database (MPD) 2018

International trade

Value of exported goods as share of GDP

Estimates correspond to merchandise export-to-GDP ratios.

Our World
in Data



Source: Fouquin and Hugot (CEPII 2016)

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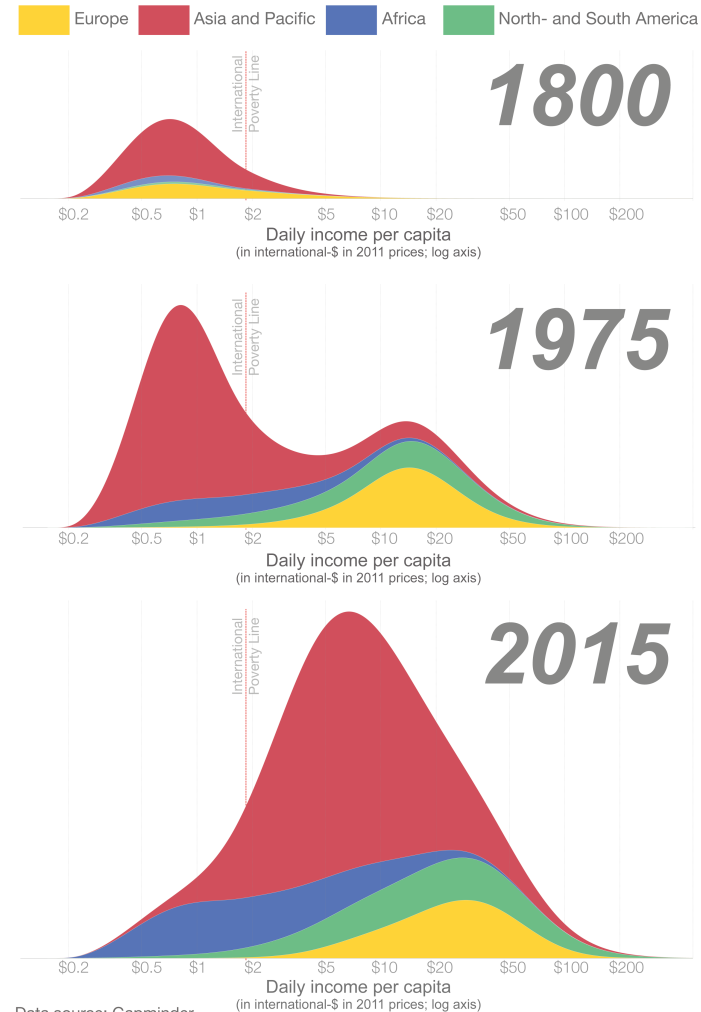
If time remains...

Income Inequality

- Inequality in the world has been decreasing
- Inequality in the advanced economies have been increasing

Global income distribution in 1800, 1975, and 2015

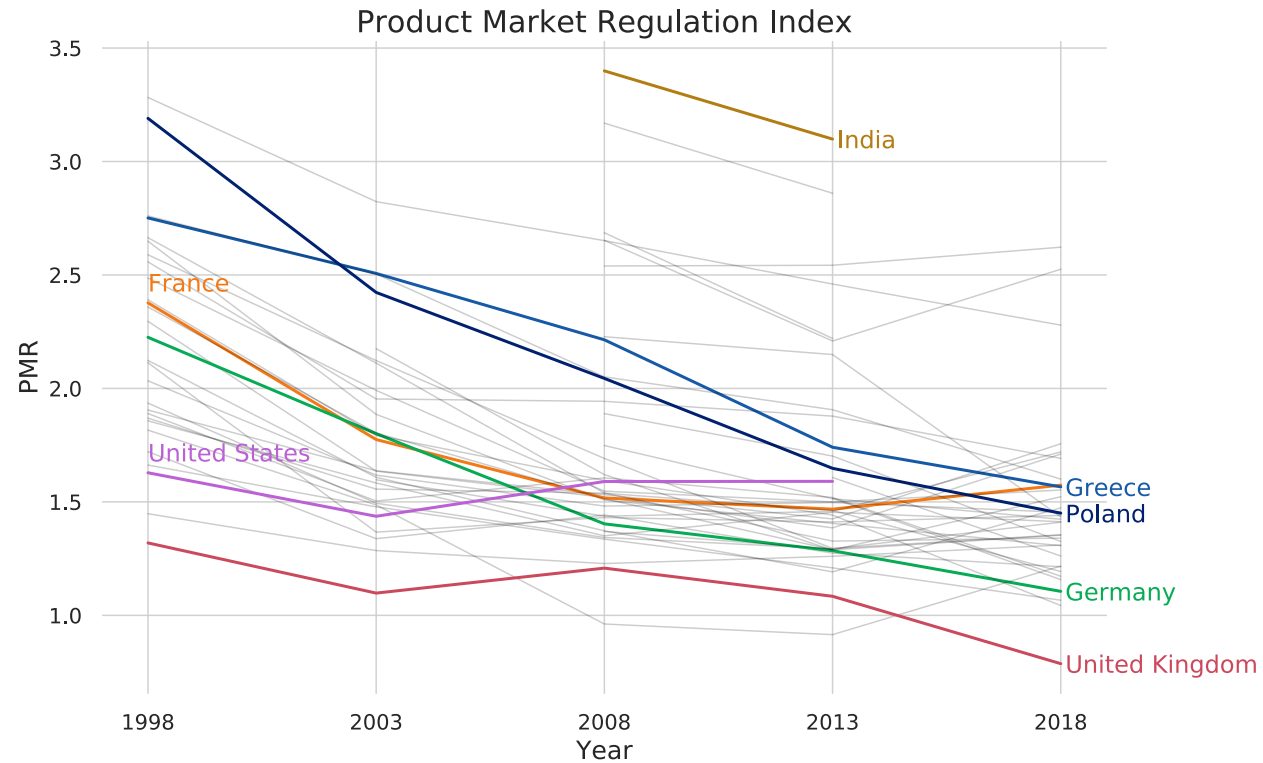
Income is measured by adjusting for price changes over time and for price differences between countries (purchasing power parity (PPP) adjustment). These estimates are based on reconstructed National Accounts and within-country inequality measures. Non-market income (e.g. through home production such as subsistence farming) is taken into account.



Data source: Gapminder

The visualization is available at [OurWorldinData.org](https://ourworldindata.org) where you find more visualizations and research on global development. Licensed under CC-BY-SA by the author Max Roser.

Markets, efficiency, and public policy



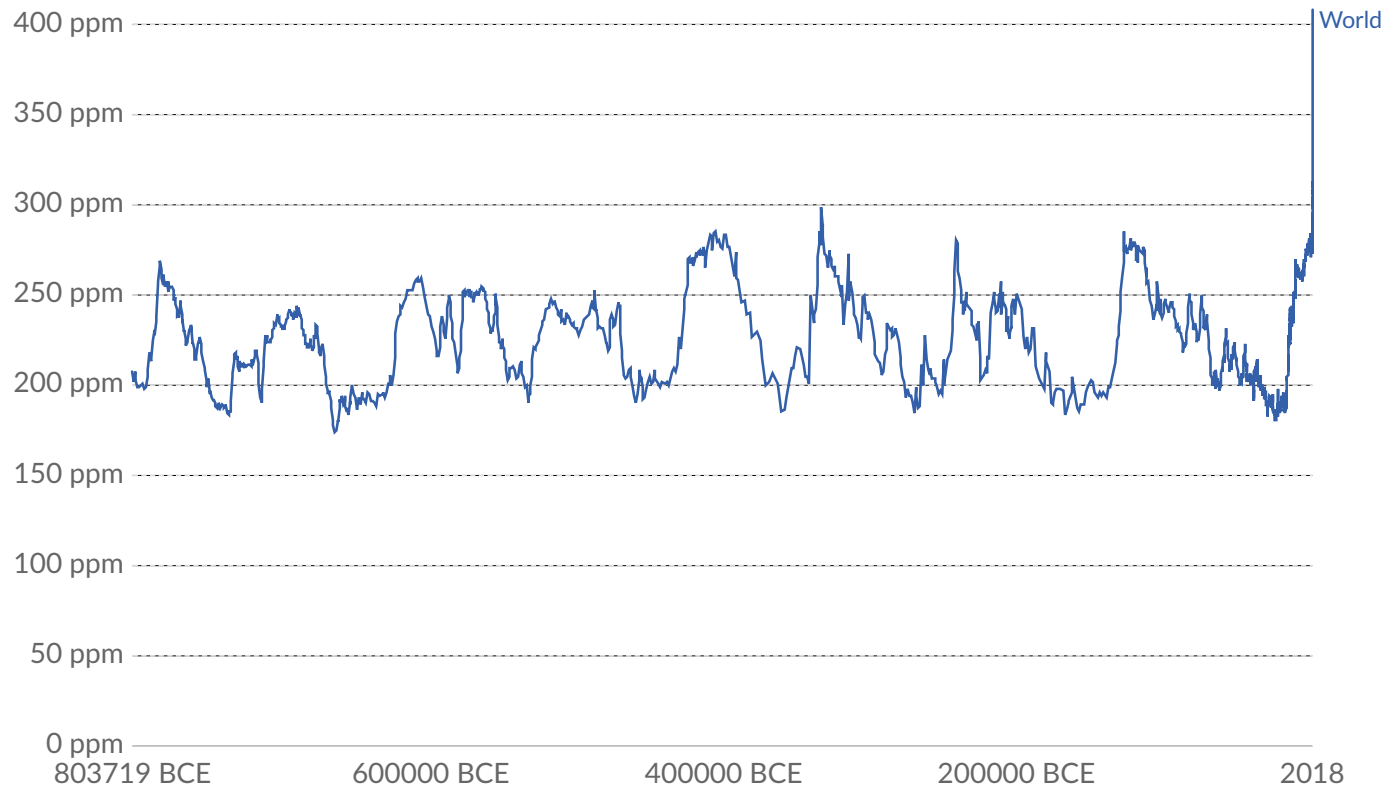
Source: OECD, Indicators of product market regulation

Economics of environment

Atmospheric CO₂ concentration

Global average long-term atmospheric concentration of carbon dioxide (CO₂), measured in parts per million (ppm). Long-term trends in CO₂ concentrations can be measured at high-resolution using preserved air samples from ice cores.

Our World
in Data



Source: EPICA Dome C CO₂ record (2015) & NOAA (2018)

OurWorldInData.org/co2-and-other-greenhouse-gas-emissions • CC BY

Next lecture

We will discuss

- wage setting process of firms