Macroeconomics

The study of the structure and performance of national economies and government policies that affect economic performance.

Key Issues:

Long run economic growth – spans over decades

Business cycles – short-run, over the course of quarters and years. inflation deflation, policy aimed at this.

Unemployment

The international economy (Macroeconomics B)

Macroeconomic policy

Difference between micro　→ aggregation.

GDP = weighted average. Certain individual activities and elements are relatively insignificant at the aggregate, macro level.

Long-run Economic Growth

* Nominal GDP = P \* Q
* Real GDP = Q. Considers production capacity of economy, controls for price level.
* Why is long run economic growth slanted upwards? → increase in population and labor productivity (amount of output produced per unit of labor).
* Rates of saving and investment are key to determining growth.
* Rate of technological advancements that improve the efficiency of machines and the productive apparatus.

Disagreement Among Macroeconomists

* Classicals vs. Keynesians
* The classical approach
  + The economy works well on its own
  + Emphasis on the invisible hand
  + Wages and prices adjust rapidly to achieve equilibrium (no sticky price models)
  + Governments should limit their role in the economy.
* Keynesians
  + Wages and prices are sticky, do not adjust quickly and enter equilibrium. Thus, the uninterrupted free market is not sufficiently efficient.
  + Raising effective demand of laborers through increasing output of the economy lowers unemployment. Increased income through drops in unemployment affect demand and spur further output growth.

Our approach

Three markets: goods, assets and labor.

Microfoundations – individual behavior. Criticism of old school macroeconomics: fails to incorporate household maximization behavior, the tradeoff of labor and consumption.

Long-run: wages and prices are perfectly flexible

Short-run: Classical- flexible wages and prices

Keynesian – sticky wages and prices

System of National Accounts (SNA)

GDP from product approach is sum of all final goods

GDP from expenditure approach

Y=GDP

Y ≡ C + I + G + NX

GDP from income approach

8 factors summed total National Income, plus statistical discrepancy equals Net National Product, plus (not minus, since depreciation is subtracted in the process of summing income) depreciation is Gross National Product, minus net factor payments (income paid to domestic factors of production abroad minus income paid to foreign factors of production domestically).

private disposable income = *Y* + *NFP* + *TR* + *INT* - *T*,

On average, CPI inflation is higher than GDP deflator inflation

GDI is more informative about the movement of the economy than GDP