



ECON 310 - MACROECONOMIC THEORY

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Disclaimer

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Chapter 1: Introduction

- Introduction to intermediate macroeconomics
- Look at some stylized facts

“The theory of economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking, which helps its possessor to draw correct conclusions”

John Maynard Keynes

Topics

- Key macroeconomic phenomena: GDP, economic growth, business cycles.
- What is macroeconomics?
- Macroeconomic models.
- Understanding recent and current macroeconomic events.

Considering the biggest economy in the world

Figure 1: The United States of America

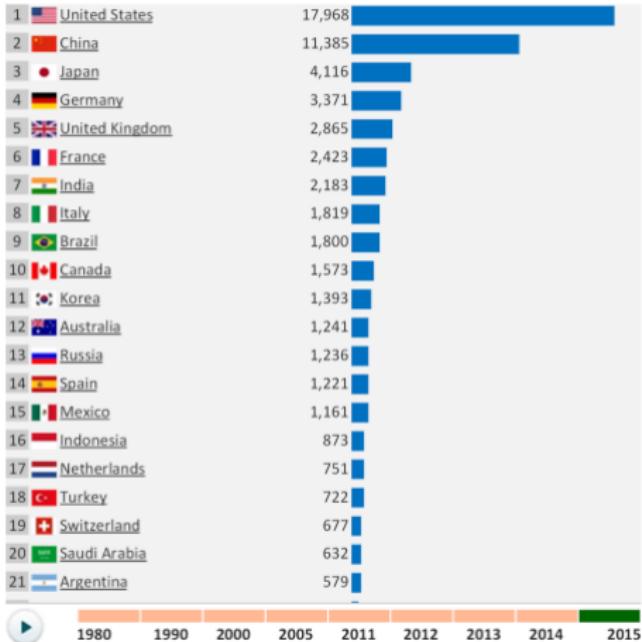


Quick Facts

- Land area: 3,500 mil square miles
- Population: 320 mil people
- ~113 mil households
- ~27 mil firms
- GDP: \$17.97 trillion (in 2015 USD)
- GDP per capita: \$54,629 (in 2015 USD)
- Gross Domestic Product (GDP): the quantity of goods and services produced within a country's borders over a particular period of time

GDP

GDP, current prices
(billion USD)



Source: [IMF World Economic Outlook \(WEO\), October 2015](#)

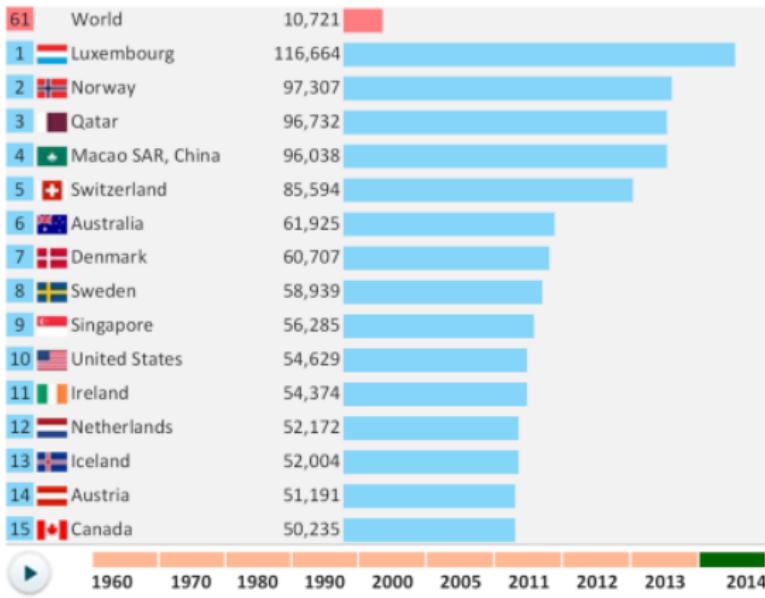
GDP - Purchasing Power Parity (PPP) Adjusted

GDP based on PPP valuation
(billion current international dollars)



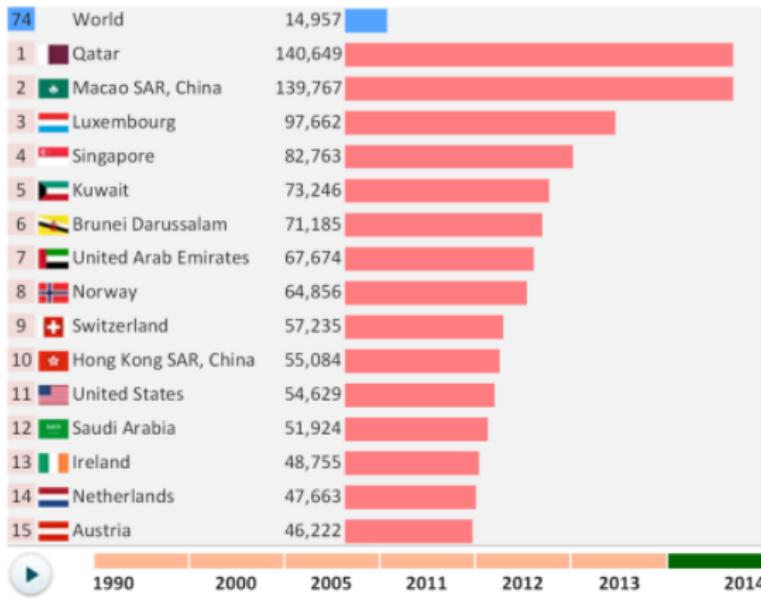
GDP - Per Capita

GDP per capita, current prices
US dollars per capita



GDP - Per Capita PPP Adjusted

GDP per capita based on PPP
current international \$



Gini Index

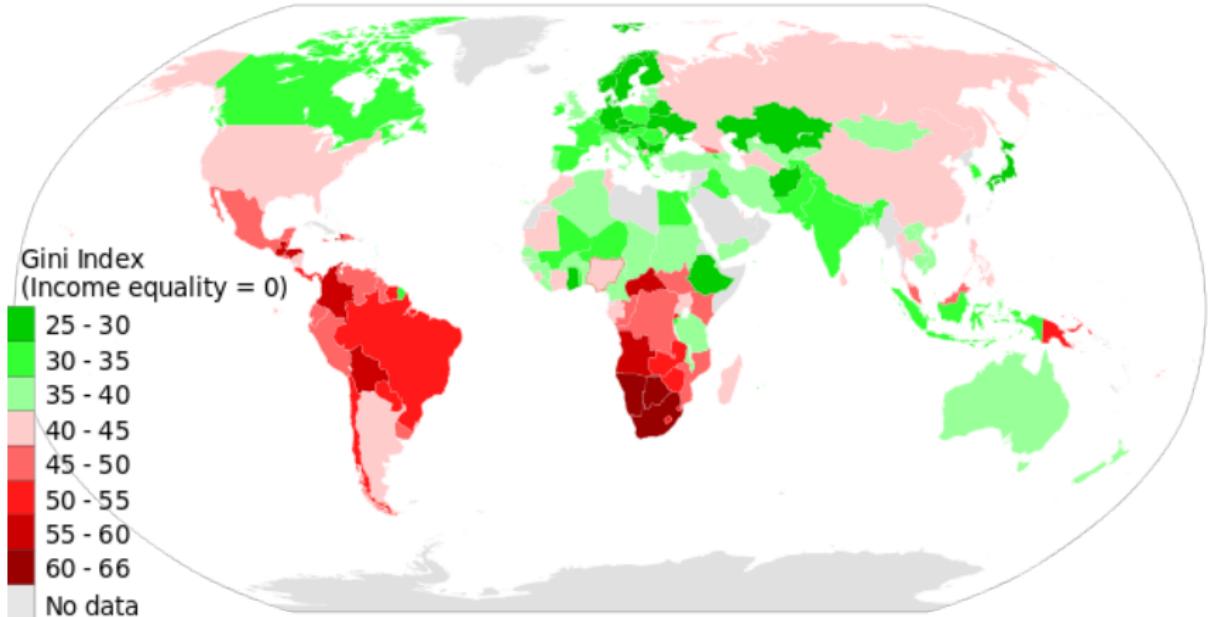
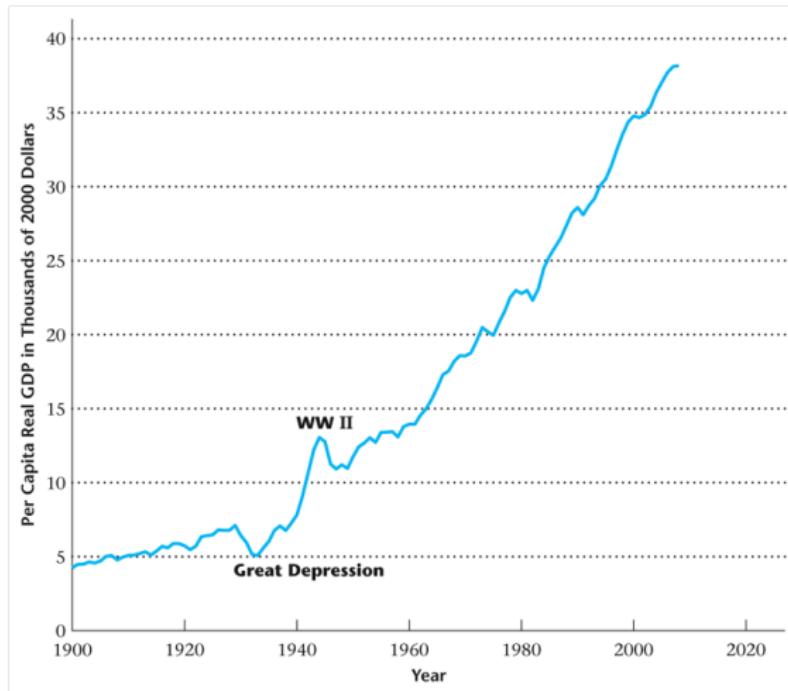


Figure 2: Per Capita Real GDP (2000 USD)



Key Macroeconomic Facts

- Fact 1: Upward exponential trend
 - Between 1900 and 2002, average income increased eight-fold
 - Long-run growth
- Fact 2: Fluctuations around long term growth trend
 - Short-run cyclical components
 - Business cycle

Figure 3: Natural Log of Per Capita Real GDP

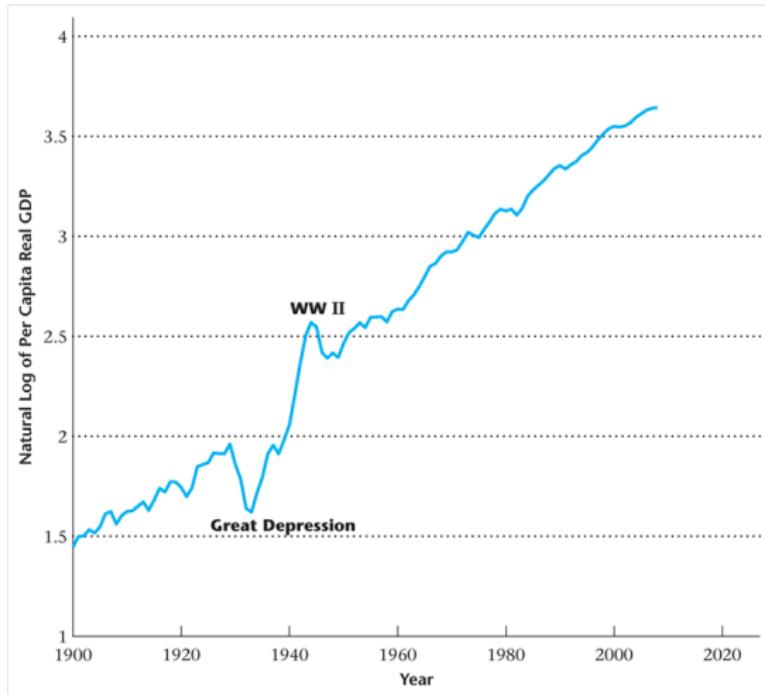


Figure 4: Natural Log of Per Capita Real GDP and Trend

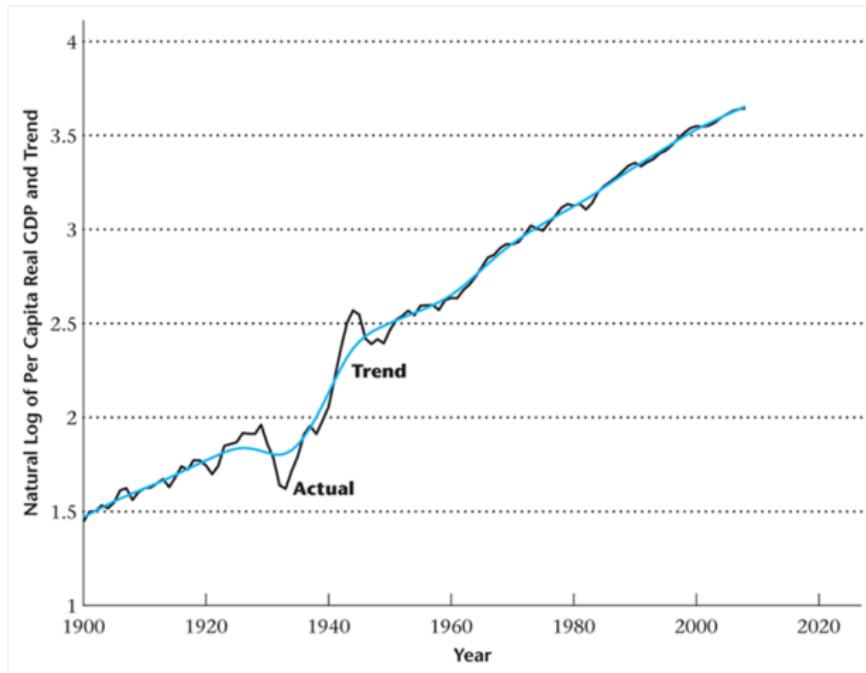
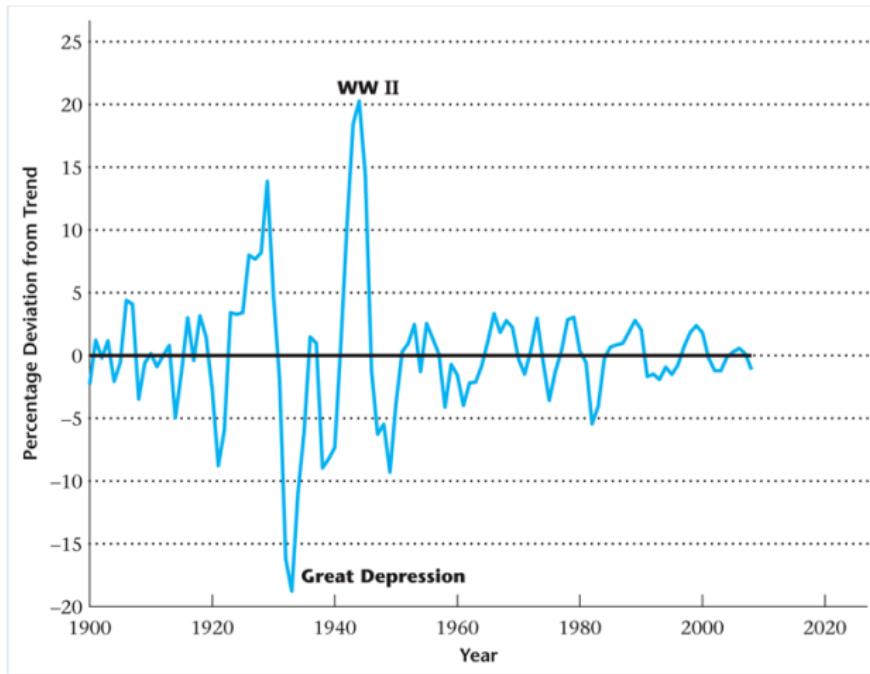


Figure 5: Percentage Deviations from Trend in Per Capita Real GNP



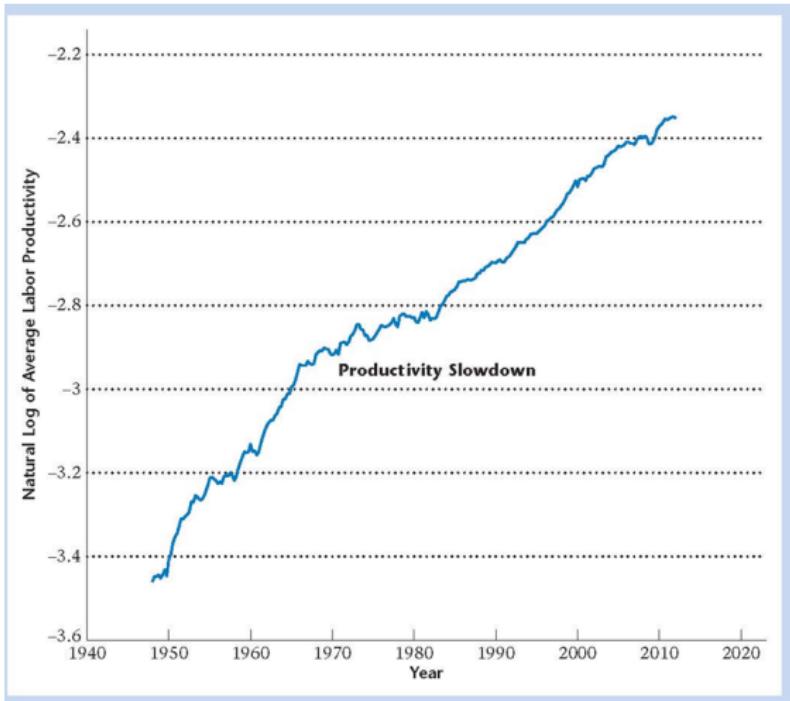
What Is Macroeconomics ?

- Models built to explain macroeconomic phenomena.
- The important phenomena are *long-run growth* and *business cycles*.
- Approach in this course is to build up macroeconomic analysis from microeconomic principles.

Figures

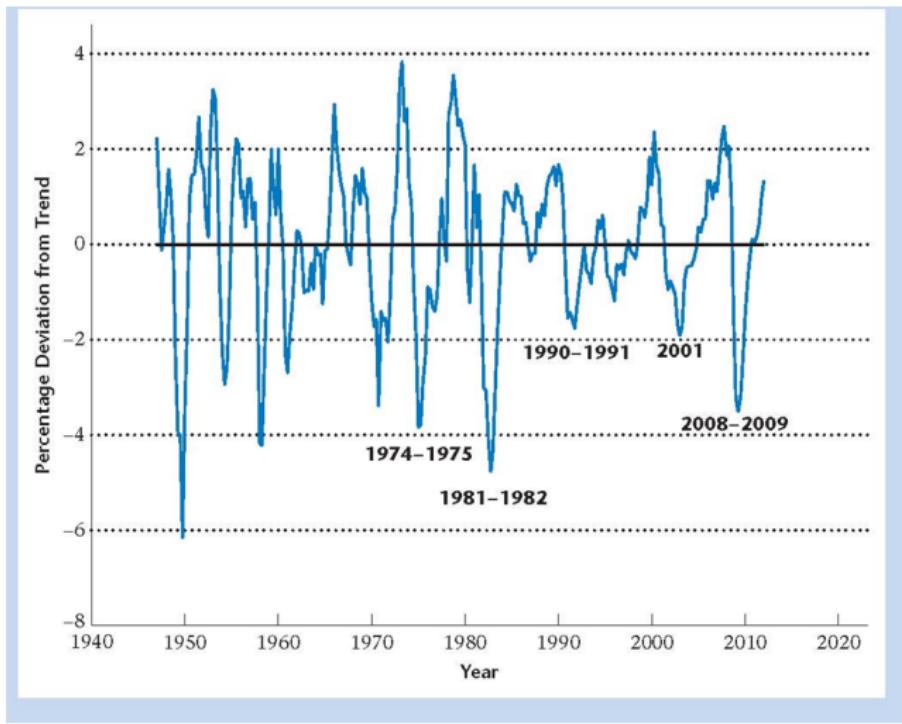
Figures (cont.)

Figure 6: $\log(\text{Average Labor Productivity})$



Figures (cont.)

Figure 7: Percentage Deviation from Trend in Real GDP, 1947-2009



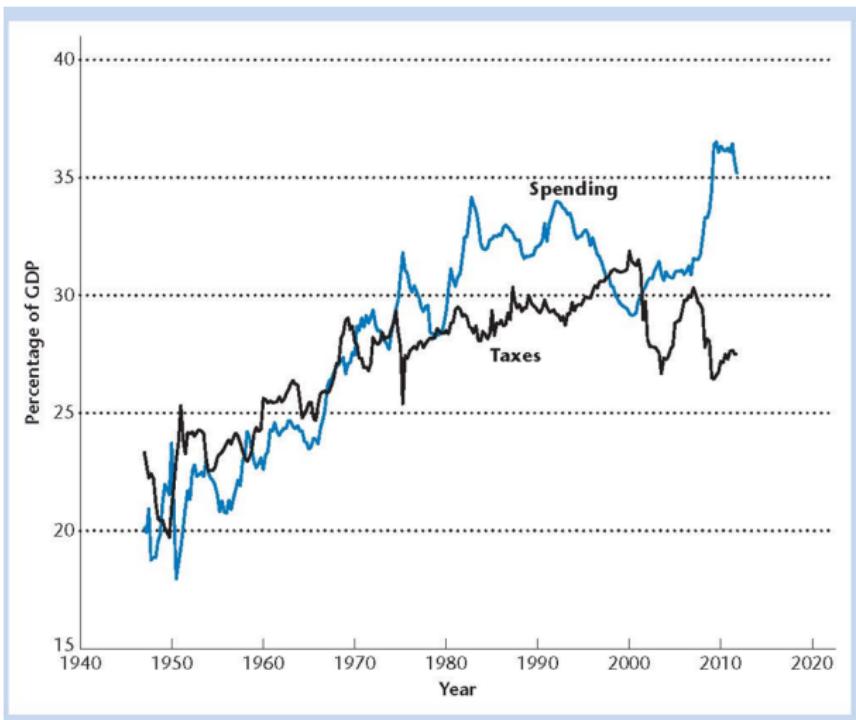
Recessions

- 1 1974 – 1975: Oil price shock caused by OPEC restrictions
- 2 1981 – 1982: Fight inflation using monetary policy i.e. high interest rates (Volcker rule)
- 3 1990 – 1991: Gulf War, oil price high again
- 4 2001: Burst of Dot.com bubble and loss of optimism → start of housing bubble (Greenspan rule)
- 5 2008 – 2009: Burst of Housing bubble and financial crisis
- 6 1982 – 2008: The Great Moderation → macro aggregates become less volatile

Figures

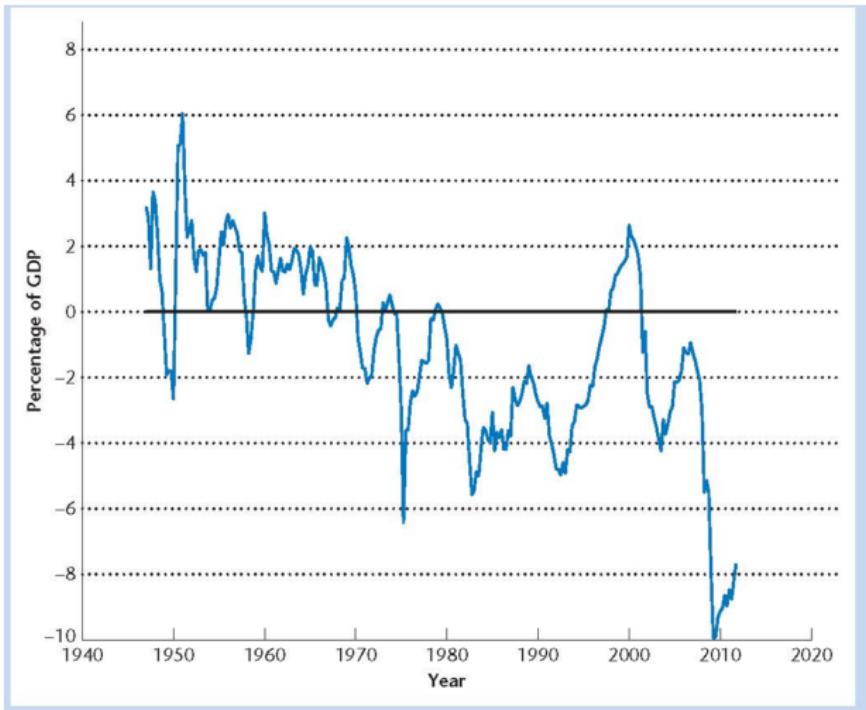
Figures (cont.)

Figure 8: Total Taxes and Total Government Spending



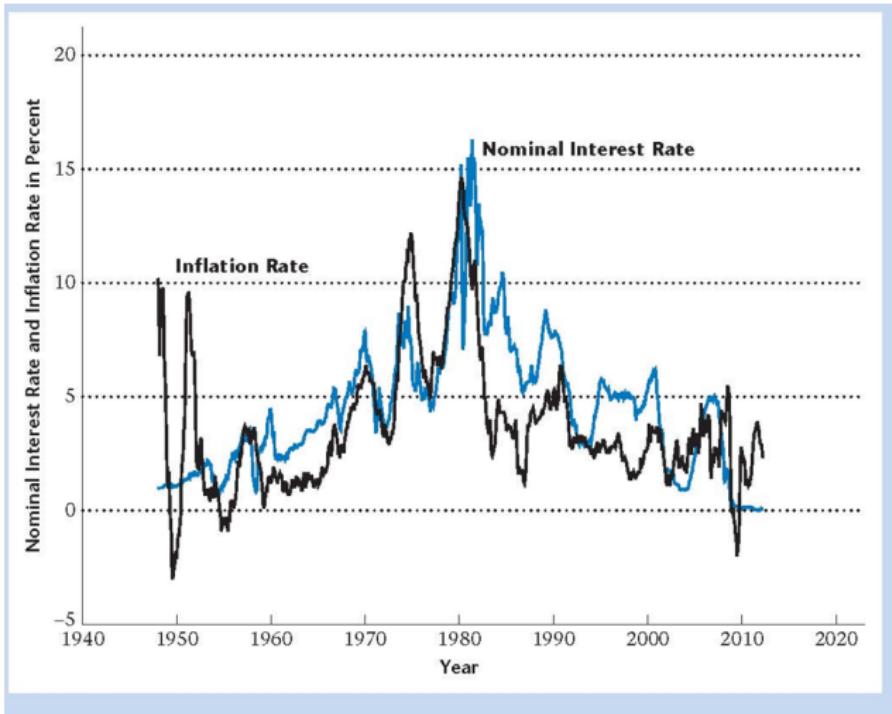
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Figure 9: Government Surplus (Deficit) as fraction of GDP



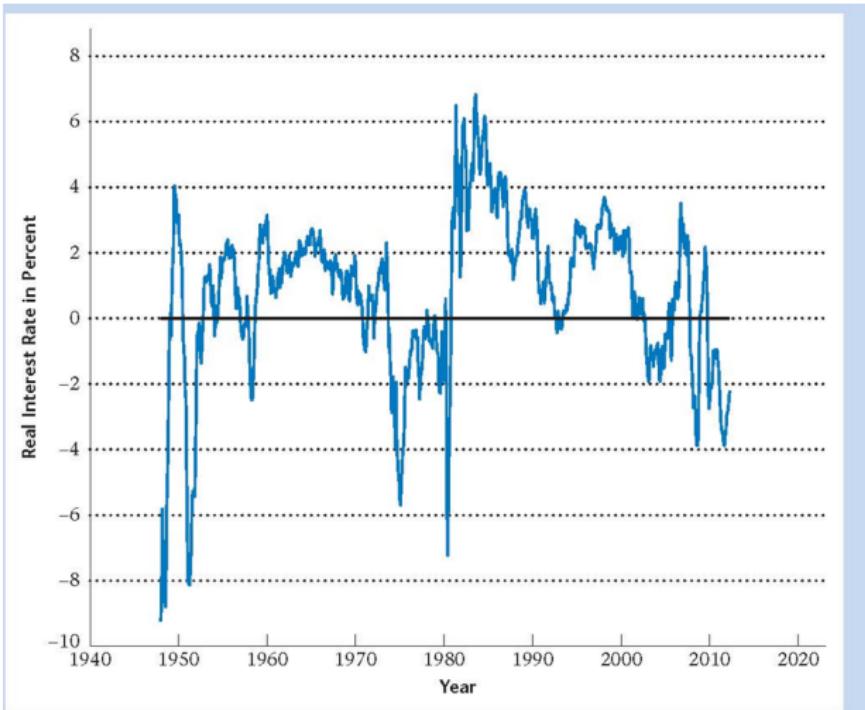
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Figure 10: Nominal Interest Rate and Inflation Rates



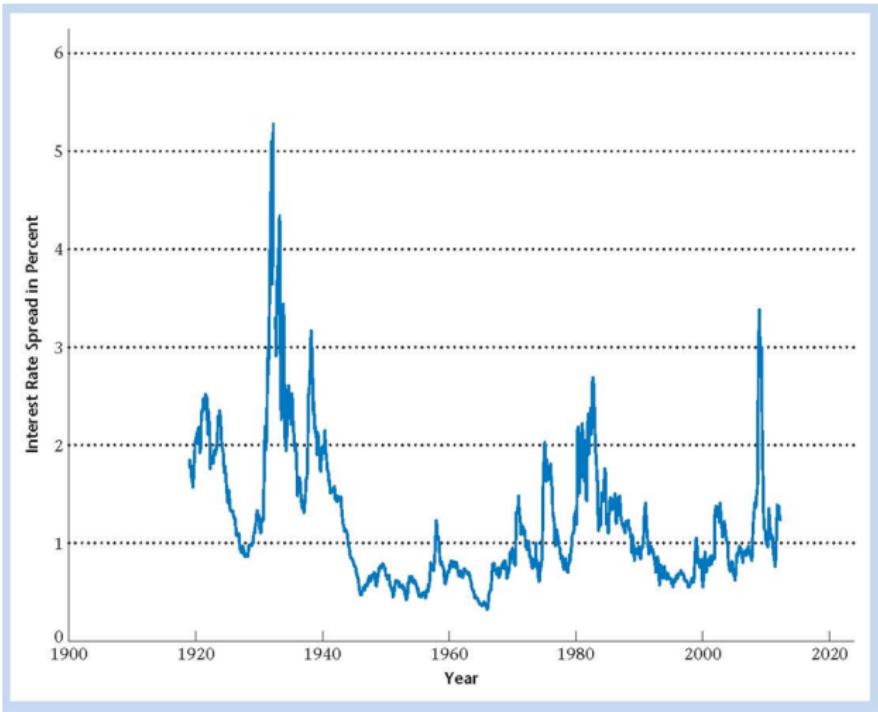
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Figure 11: Real Interest Rates



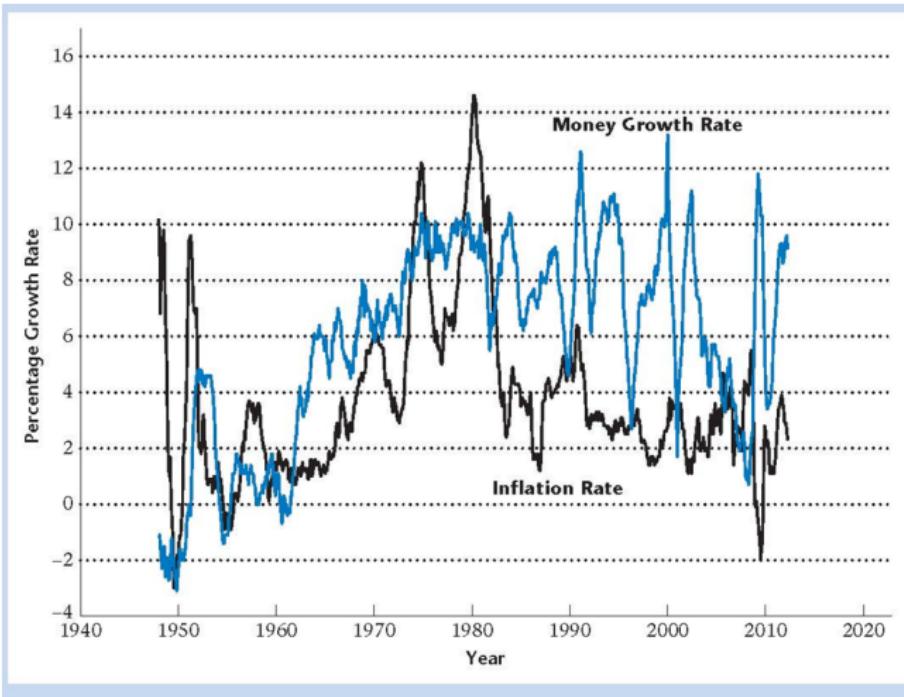
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Figure 12: Interest Rate Spread



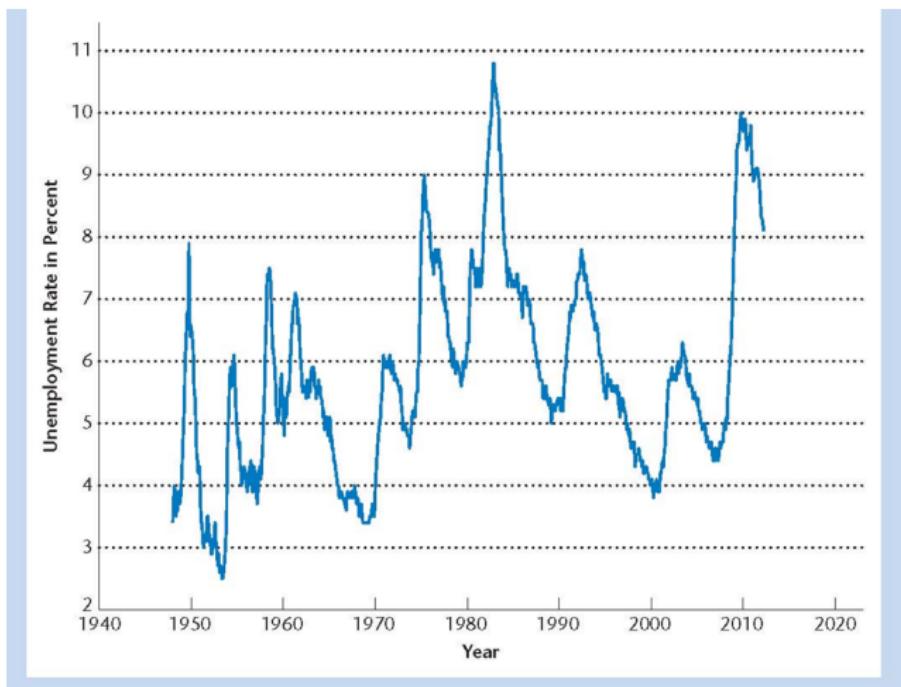
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Figure 13: The Inflation Rate and the Money Growth Rate



Figures (cont.)

Figure 14: The Unemployment Rate in the United States, 1948-2012



Figures (cont.)

Figure 15: The Beveridge Curve, 1948-2012

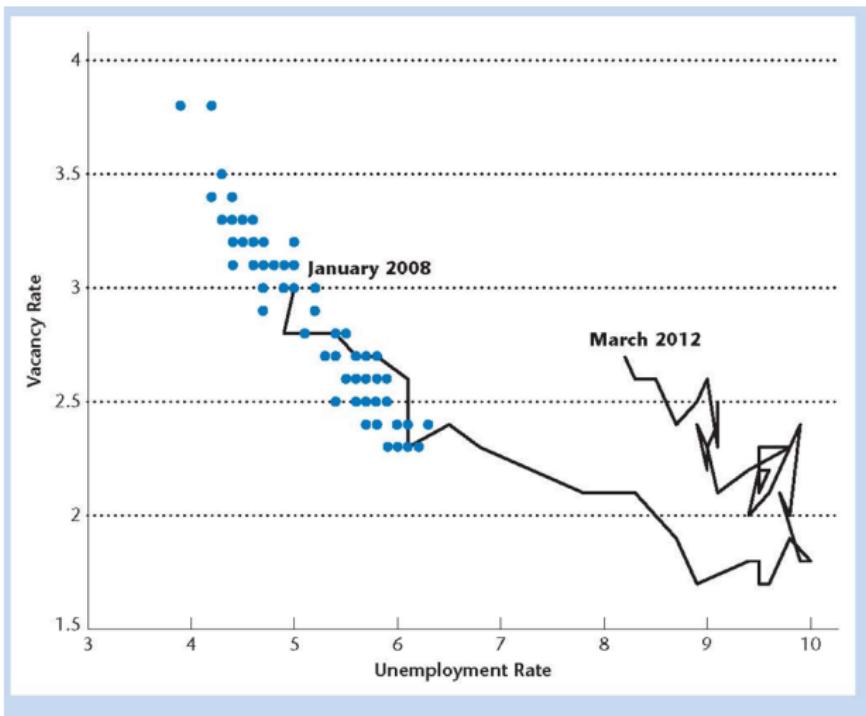


Figure 16: Deviations from Trend in the Unemployment Rate and Percentage Deviations from Trend in Real GDP

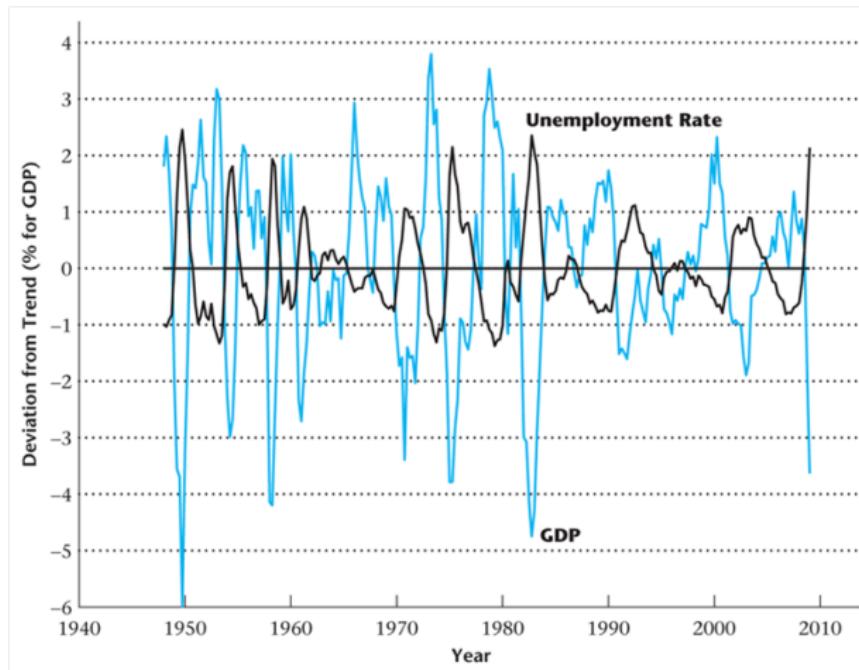


Figure 17: Relative Price of Housing

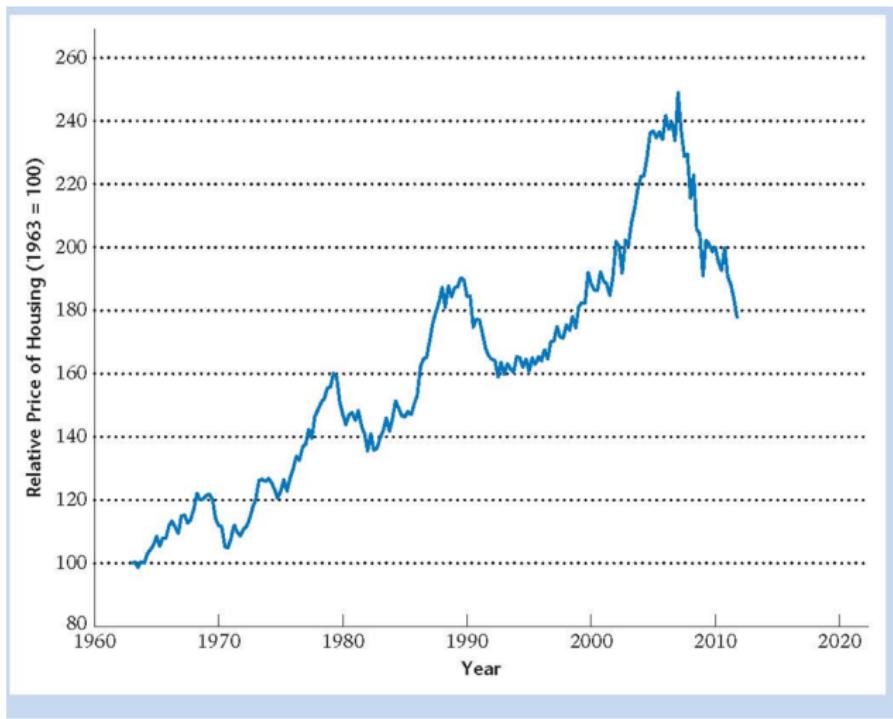


Figure 18: Exports and Imports of Goods and Services as Percentages of GDP

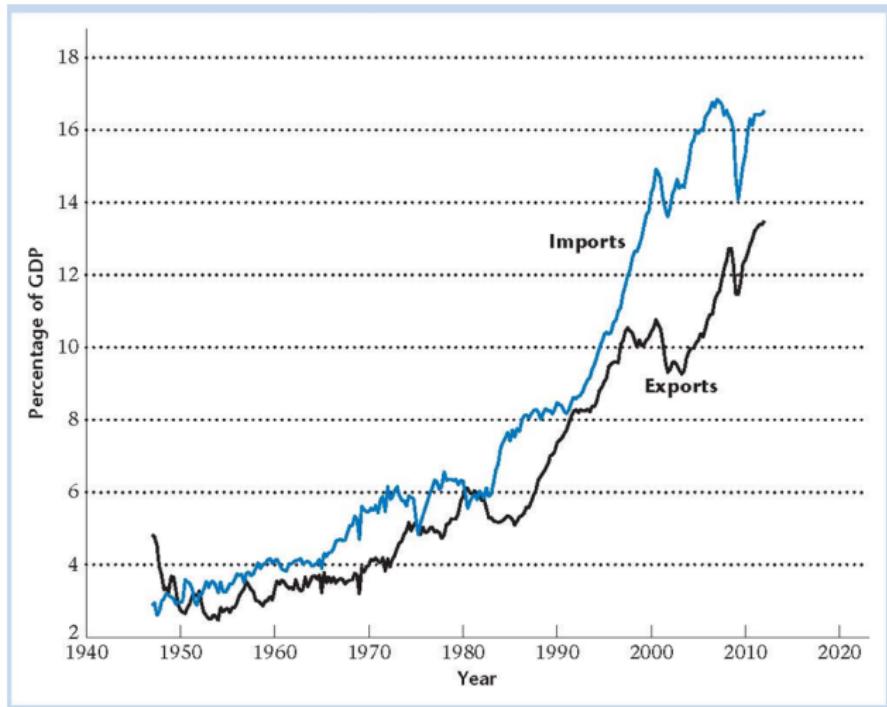


Figure 19: The Current Account Surplus

