

ECON 206 MACROECONOMIC ANALYSIS

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Chapter 1

Chapter 1

Introduction to Macroeconomics

Introduction

- Course syllabus, requirements
- Introduction to Macroeconomics (Ch.1)

What is macroeconomics?

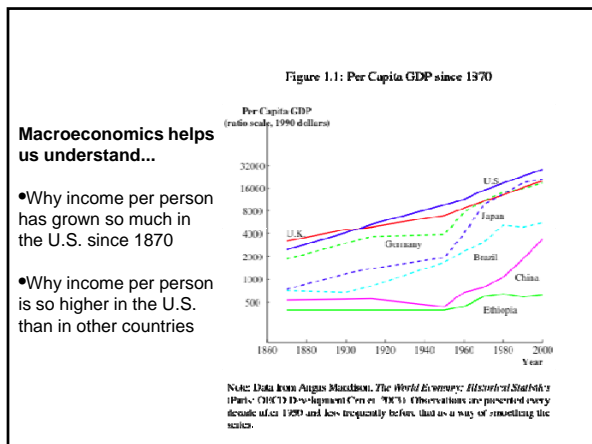
- Macroeconomics is the science of informing government policy along two dimensions:
 - We want to understand what improves living standards in the long run: the determinants of economic growth
 - We also want to understand short-run fluctuations: recessions and expansions

Previous Semester Results

ECON 206 Fall 2008		
Grade	Frequency	Percent
A	9	23.7
A-	4	10.5
B+	3	7.9
B	6	15.8
B-	5	13.2
C+	5	13.2
C	2	5.3
D	1	2.6
F	1	2.6
WU	2	5.3
Total	38	100

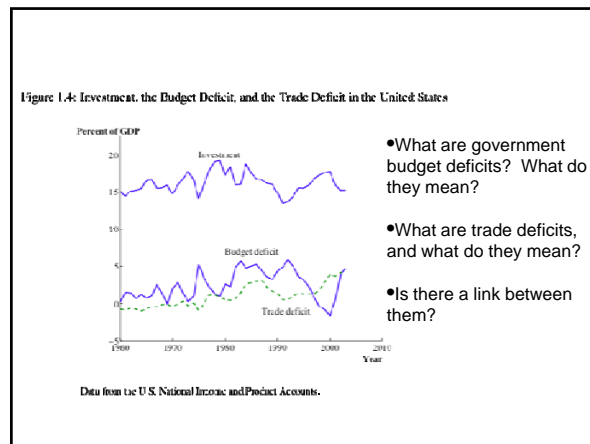
Recent examples of real-world macroeconomics

- 2001 recession and income tax cut (*short run*)
 - By March of 2001, a combination of factors including the dot-com collapse and its effect on stock prices produced a slackening of economic activity
 - In early June, Congress lowered income tax rates for all incomes, and by August the Treasury mailed out rebate checks usually around \$600 for couples
 - The events of September 11th compounded the slowdown anyway
- 2003 tax cut (*long run*)
 - In order to increase private saving, Congress removed taxes on personal dividend income (money sent to you by companies whose stocks you own)
- Macroeconomists were instrumental in advising the government about these policies

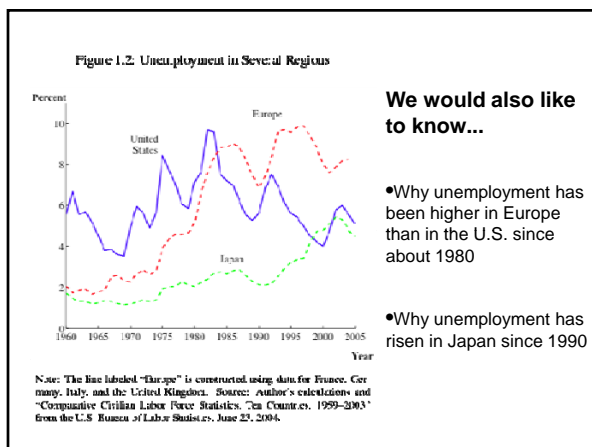


Macroeconomics helps us understand...

- Why income per person has grown so much in the U.S. since 1870
- Why income per person is so higher in the U.S. than in other countries

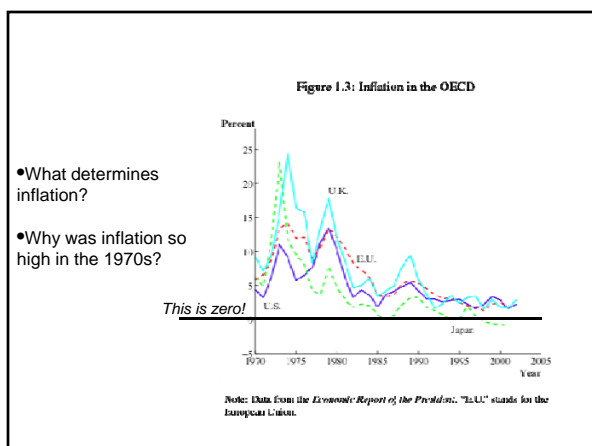
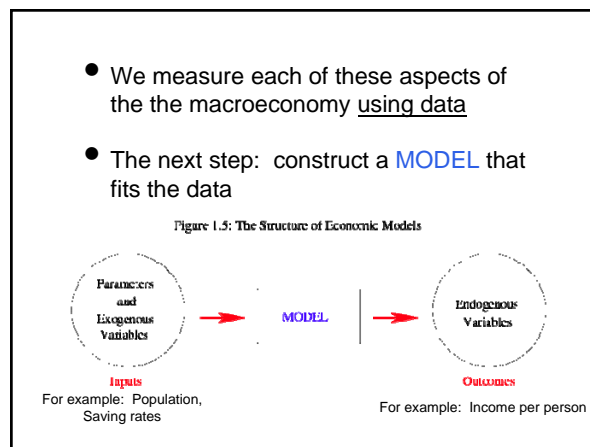


- What are government budget deficits? What do they mean?
- What are trade deficits, and what do they mean?
- Is there a link between them?



We would also like to know...

- Why unemployment has been higher in Europe than in the U.S. since about 1980
- Why unemployment has risen in Japan since 1990



- What determines inflation?
- Why was inflation so high in the 1970s?

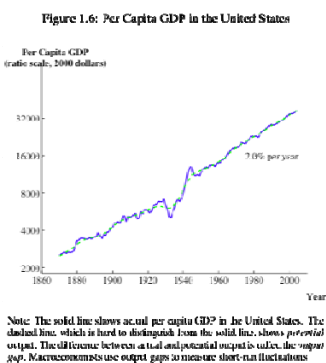
With a model in hand:

- Does it fit the facts?
- What does it imply about the future?

Much of what we will do is learn and apply models to macroeconomic phenomena

Figure 1.6 Summary of many things we'll study:

- The trend in income per person since 1870 has been stable growth
- There have been big and small deviations (wiggles) that are recessions and expansions
- What is the outlook for continued growth?



Where do we go from here?

- Chapter 2 shows how we measure income
- Chapters 3–6 discuss long-run growth
- Chapters 7–8 talk about inflation and unemployment
- Chapters 9–12 discuss short-run fluctuations
- Chapter 13 talks about government budgets
- Chapters 14–15 addresses international trade and finance