Introduction to Macroeconomics

- Study of the behavior of national economies
- Objective of designing policy to maximize economic welfare
- Other objectives for understanding macroeconomics?
Outline

• Behavior of important aggregates over time
• Economic models
Figure 1.1 Output of the U.S. economy, 1869-2011

Sources: Employment in thousands of workers 14 and older for 1900–1947 from Historical Statistics of the United States, Colonial Times to 1970, pp. 126–127; workers 16 and older for 1948 onward from FRED database, Federal Reserve Bank of St. Louis, research.stlouisfed.org/fred2/series/CE16OV. Average labor productivity is output divided by employment, where output is from Fig. 1.1.

Figure 1.2 Average labor productivity in the United States, 1900-2011
Sources: Civilian unemployment rate (people aged 14 and older until 1947, aged 16 and older after 1947) for 1890–1947 from Historical Statistics of the United States, Colonial Times to 1970, p. 135; for 1948 onward from FRED database Federal Reserve Bank of St. Louis, research.stlouisfed.org/fred2/series/UNRATE.
Figure 1.4  Consumer prices in the United States, 1800-2011

Economic Models

• State a question
• Assumptions about behavior (often optimization)
• Implications of those assumptions
• Confront theory with data
• Revise assumptions and repeat
Build a Model

• Question:
How did tax cuts in economic stimulus package affect GDP?
• Assumptions
• Deductions
• Confront with data
Types of Macro Models

• Classical – Adam Smith’s invisible hand works well
• Keynesian – market failure is important and welfare can be improved with government intervention
• Consensus model – Keynesian in the SR and Classical in the LR