

Announcements

- For students that require extended examination times, please see me after class
- The temporary web page is up; check for homework assignments
- Conference Sign Ups: If you have not done so, please see me after class
- Thursday's conference will be math review
- Outline for today: Introduction
 - Motivation
 - Course Outline
 - How 'economists' study economics

Motivations

Some of your responses:

- General knowledge in order to understand current events (the world around us)
 - Why are some so rich and others so poor
 - Make \$\$; Concentration Requirements
- Why do we care about the macroeconomy? That is, what is the significance/importance of learning about the economy on a national/international level?

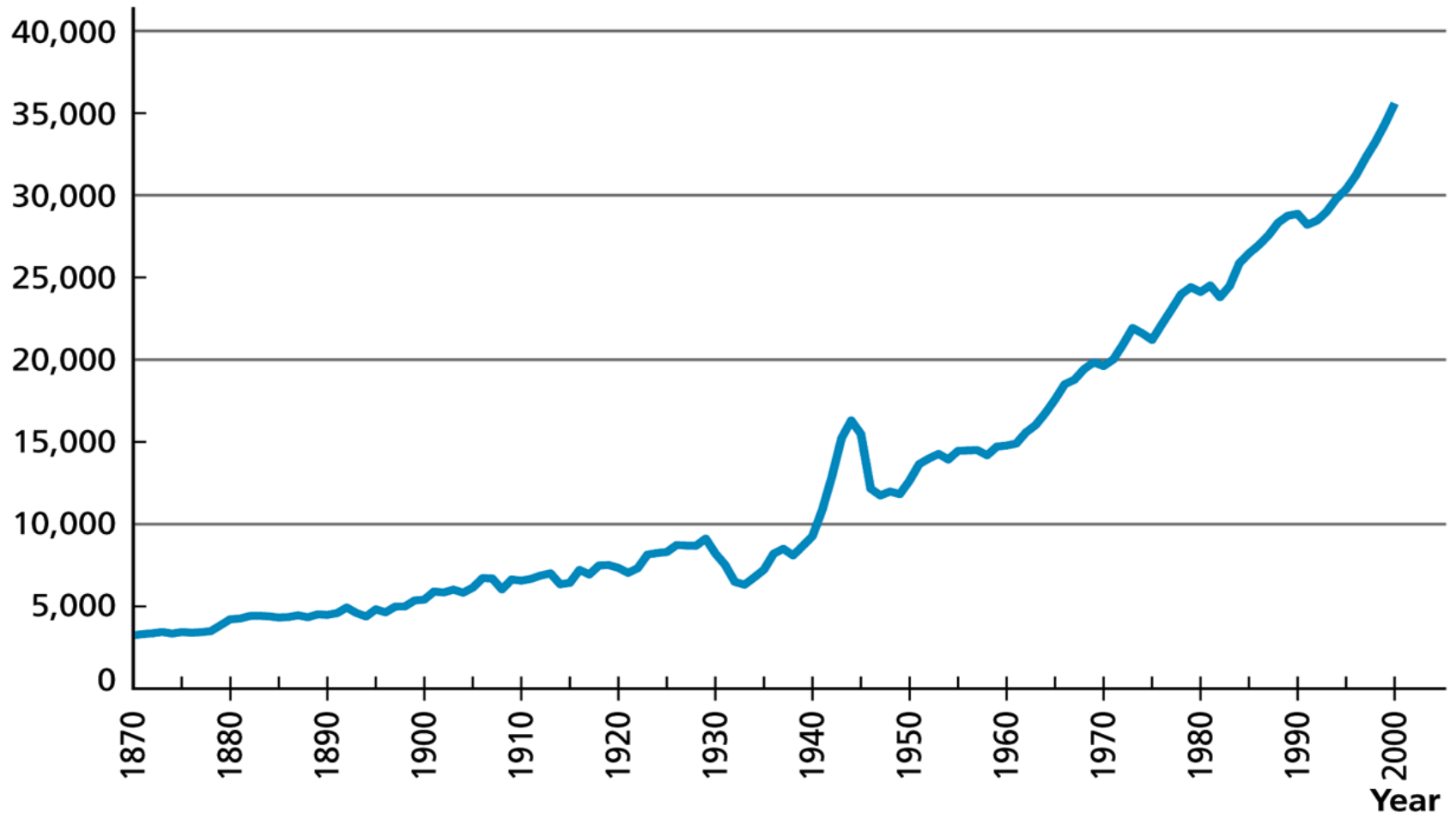
Gross Domestic Product

- The final value of all goods and services produced within the borders of a country
- The single most important and cited indicator of economic well being
- Real GDP is issued by the Bureau of Economic Analysis of the U.S. Department of Commerce Quarterly

FIGURE 1.2

GDP per Capita in the United States, 1870–2000

GDP per capita (2000 dollars)

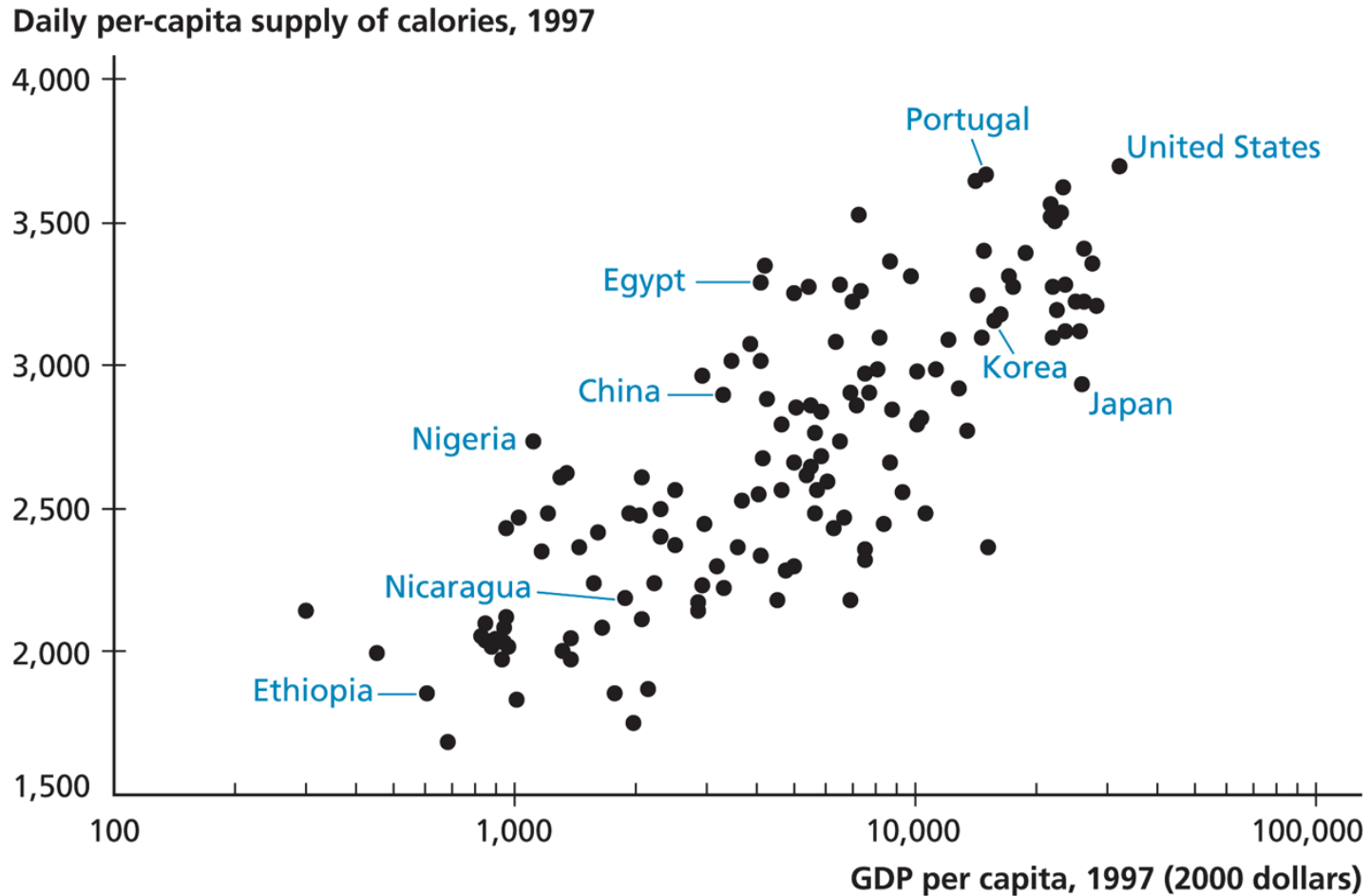


Why does GDP matter?

- Step back and think: Do we really *only* care about how much is produced?
Hopefully, you answered NO...
- GDP is a “rough and ready” measure of the economic performance of the economy and more importantly...
- GDP is correlated with many things you may certainly care more about.

FIGURE 6.1

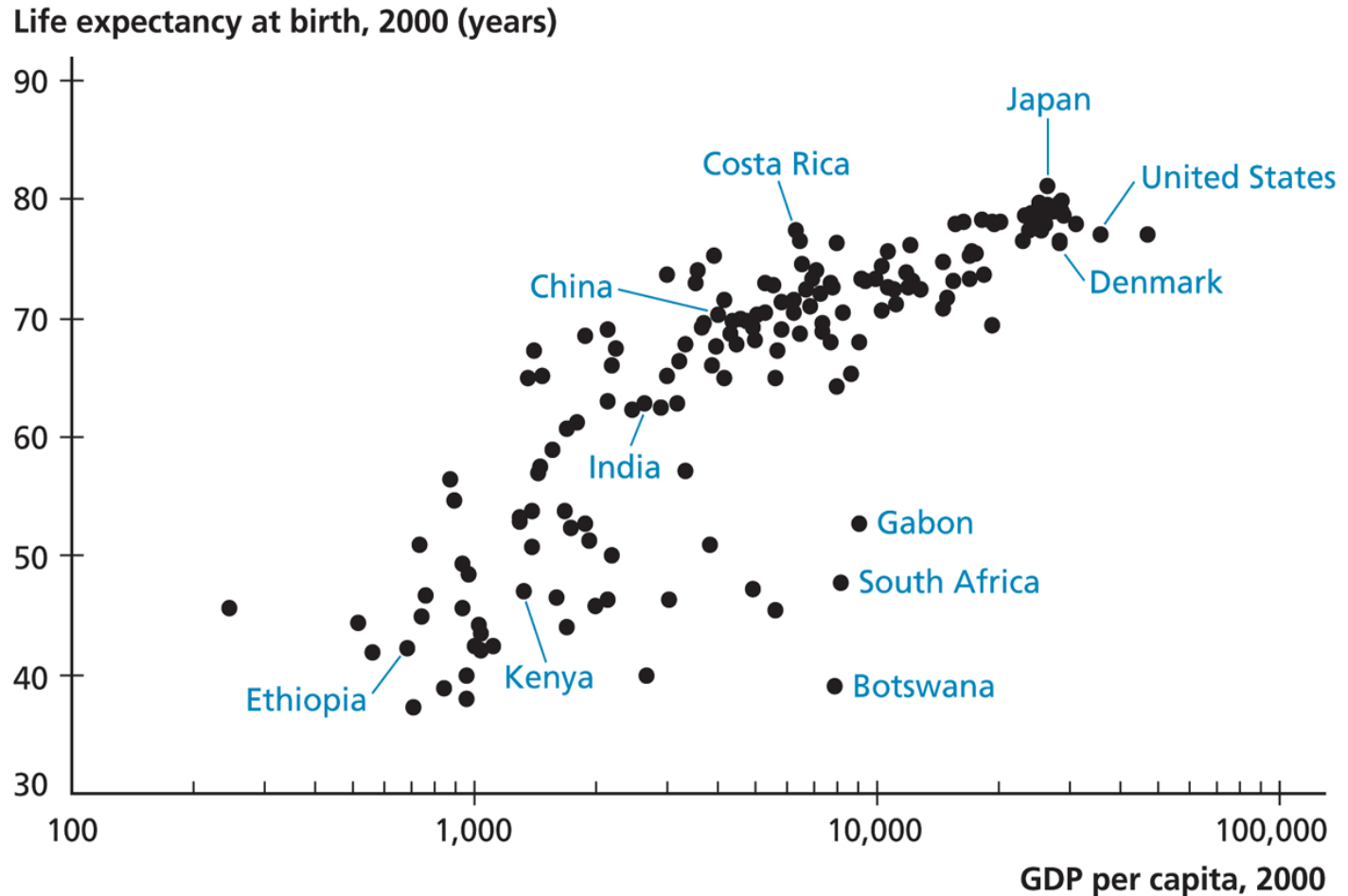
Nutrition Versus GDP per Capita



Source: FAOSTAT database, Heston et al. (2002).

FIGURE 6.2

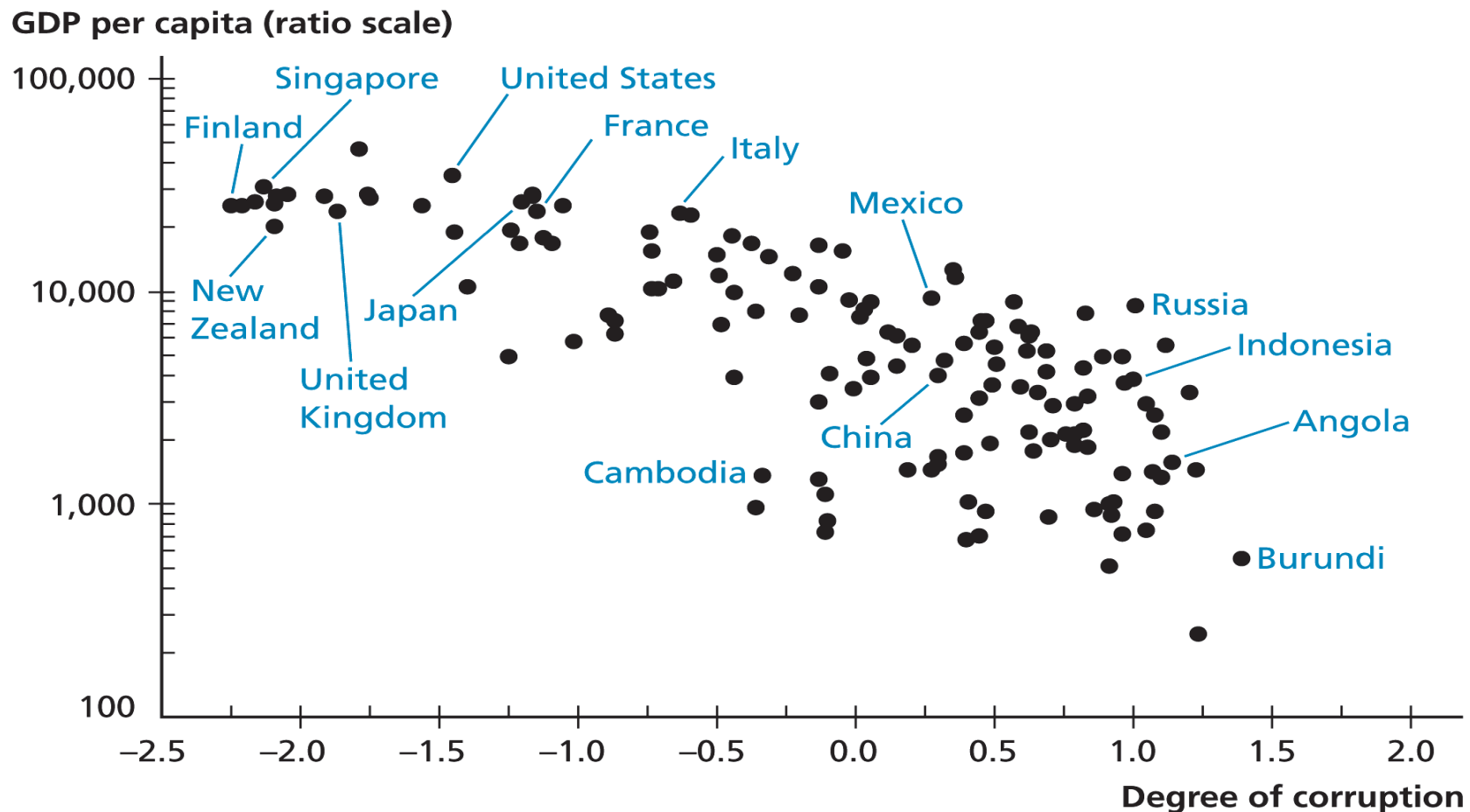
Life Expectancy Versus GDP per Capita



Source: Heston et al. (2002), World Bank (2003b).

FIGURE 12.5

Government Corruption Versus GDP per Capita, 2000



Source: Kaufmann, Kray, and Zoido-Lobaton (2002).

Inflation and Unemployment

<i>year</i>	<i>U rate</i>	<i>inflation rate</i>	<i>elec. outcome</i>
1976	7.7%	5.8%	Carter (D)
1980	7.1%	13.5%	Reagan (R)
1984	7.5%	4.3%	Reagan (R)
1988	5.5%	4.1%	Bush I (R)
1992	7.5%	3.0%	Clinton (D)
1996	5.4%	3.3%	Clinton (D)
2000	4.0%	3.4%	Bush II (R)

Preferences over Inflation and Unemployment (Di Tella et. al. 2001)

Survey of Europeans and Americans over
~20 years

- “Taken all together, how would you say things are these days—would you say you are very happy, pretty happy, or not too happy?”
- “On the whole, are you very satisfied, fairly satisfied, not very satisfied or not at all satisfied with the life you lead?”

Procedure

Controls (self diffs): unemployment, male, age, education, marital status, number of children, income, life cycle, country fixed effects, and year fixed effects

The residual effect: national unemployment levels and inflation levels negatively effect life satisfaction; with the former twice that of the latter

The Great Depression

- 1929: The stock market crash
- 1929-1933: The slide into the Great Depression
- 1933-1940: The New Deal
- 1941-1945: Rearmament and World War II

The Magnitude of the Great Depression

- Unemployment peaks at 25%
- One-third of all banks in the United States fail and close
- Unemployment exceeds 10% until the U.S. enters World War II
- In the U.S.: the political reaction to the Great Depression is called Roosevelt's "New Deal"
- In Germany: the political reaction to the Great Depression is called "Adolf Hitler"

Source: Brad DeLong

Why was it so bad?

- The Federal Reserve's actions: Contractionary Policy (late 20's onto early 30's)
- International Policy: Smoot-Hawley Tariff Act of 1930
- Domestic Policy: Tax Rates (1932)

the world was "... as capable as before of affording for every one a high standard of life.... But today we have involved ourselves in a colossal muddle, having blundered in the control of a delicate machine, the working of which we do not understand." -Keynes

Course Outline

- Economic Growth (solow model)
 - The Very Long Run
 - Think: decades
- Flexible Price Macro (ISLM/ AD-AS)
 - The Long Run (sometimes called intermediate run)
 - Think: less than 10 years but not...
- Sticky Price Macro (ISLM/ AD-AS)
 - The Short Run
 - Think: immediate to less than 5 years

How Do We Study Macro Theory?

- Create mathematical models
 - Assumptions
 - Exogenous variables
 - Endogenous variables
- Create testable implications (driving the empirics)
 - OLG time models
 - Unrealistic, but provides great insight
 - Guides a thought process

How Do We Study Macro Empirics?

- Data
- Econometrics
 - Regressions of the form:
$$Y = \beta X + \varepsilon$$
 - Other econometric specifications
- Bridges the link between theory and reality

Conclusions

Macroeconomics is intimately connected with various aspects of well being...not simply your 'laymans' view of economic activity

Keep in mind the road map that we follow for the course

Theory and Empirics are tools that economists use to study the economy

Misc...

1. Read Chapter 1 & 2
2. HW will be posted on the web by 5pm
3. You have section this week
4. Wednesday: Measuring the macroeconomy & Math Review for the start of growth