

The Science of Macroeconomics

1. What Macroeconomists study?
2. Why we study Macroeconomics?
3. How economists think?
4. Measures of the aggregate economic activity

1 What Macroeconomists Study?

- Microeconomics: behavior of individuals and organizations at a disaggregated level;
- Macroeconomics: aggregate behavior of the economy:
 - How it evolves over time
 - how it interacts with other economies
 - how government policy makers influence economic outcomes
- Relationship between Micro and Macro

2 Why We Study Macroeconomics?

- As a consumer: consumer durables purchase decisions, including cars, houses and etc.
- As a planner: Portfolio management (e.g. depending upon inflation)
- As a job seeker: when to look for a job (how long the recession will last)
- As an entrepreneur: when to invest and where to invest?
- As a policy maker: fiscal policy and monetary policy
- As a good citizen: better understanding of the economy and policy arguments

3 How Economists Think?

Economists as detectives: a combination of theory and observation

- Theory as model building

Definition 3.1 Models are simplified theories that show the key relationships among economic variables;

Definition 3.2 Exogenous variables are variables that a model takes as given (coming from outside the model)

Definition 3.3 Endogenous variables are those variables that a model seeks to explain

- Data

4 Measures of Aggregate Economic Activity

- Real GDP (gross domestic product)

Definition 4.1 Nominal GDP is the total value of goods and services produced in an economy during a particular time period.

Definition 4.2 Real GDP is the real value of the above goods and services after adjusting the level of prices.

- Inflation rate
- Unemployment rate

5 Main Topics to be Covered:

- What are the engines of long-run growth?
- Can policy makers influence trend growth?
- What causes business cycles?
- What causes inflation?
- What causes unemployment?
- Can the government take action to offset some of this short-term instability?
- How are Macro and Micro related?