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?