ECON 3020 MACROECONOMICS: INTRODUCTION

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What is Macroeconomics?

Macroeconomics is

- “the study of the structure and performance of national economies and of the policies that governments use to try to affect economic performance.” (Abel, Bernanke and Croushore)
- “the study of the economy as a whole.” (Mankiw)

How do individual (micro) economic decisions determine aggregate (macro) outcomes?
US Real Output, Consumption and Investment Per Capita

Log Levels

-2
-1.5
-1
-0.5
0
0.5
1
1.5
2
2.5
3

real gdp
real nondur cons exp
real dur cons exp
real fix inv exp
real gov exp


real gdp
real nondur cons exp
real dur cons exp
real fix inv exp
real gov exp
Long Run Growth vs. Short-Run Fluctuations
Income per capita in 2012

## Income per capita in 1990 Dollars

<table>
<thead>
<tr>
<th>year AD:</th>
<th>1</th>
<th>1000</th>
<th>1500</th>
<th>1820</th>
<th>1950</th>
<th>2003</th>
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<td>1,257</td>
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<td>727</td>
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<td>Italy</td>
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<td>1100</td>
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<td>500</td>
<td>669</td>
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<td>-</td>
<td>-</td>
<td>651</td>
<td>998</td>
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Source: Angus Maddison
Big Picture Questions in Macroeconomics

What determines long-run economic growth?
Long Run Growth vs. Short-Run Fluctuations
Short-Run Fluctuations: Output

![Graph showing cyclical component of real GDP from 1950 to 2010](image)
Short-Run Fluctuations: Private Consumption
Short-Run Fluctuations: Private Fixed Investment

The diagram illustrates the cyclical component of real GDP, real nondur cons exp, real dur cons exp, and real fix inv exp from 1950 to 2010.
Short-Run Fluctuations: Employment

![Chart showing cyclical component of real GDP and employment over time from 1950 to 2010.](chart.png)
Short-Run Fluctuations: Since 1947

![Graph showing cyclical component of real GDP from 1950 to 2010]
Short-Run Fluctuations: Since 1870

![Diagram showing percentage deviation from HP-filtered trend in real GDP from 1880 to 2000.](image-url)
Big Picture Questions in Macroeconomics

What determines a nation’s long-run economic growth?
What causes a nation’s economy to fluctuate?
International Unemployment Rates

Source: Bureau of Labor Statistics
Europe Unemployment Rates

Source: Bureau of Labor Statistics
US Unemployment Rate

Source: FRED (Federal Reserve Economic Data)
US Unemployment

[Graph showing US unemployment rate from 1890 to 2010, with significant events such as the Great Depression, World War II, and recessions labeled.]
Big Picture Questions in Macroeconomics

What determines a nation’s long-run economic growth?
What causes a nation’s economy to fluctuate?
What causes unemployment?
The Price Level

Source: Tom Sargent
The US Price Level

Graph showing the consumer price index from 1800 to 2000, highlighting key periods of inflation and deflation:
- War of 1812 inflation (1812–1814)
- Postwar deflation
- Civil War inflation (1861–1865)
- Postwar deflation
- World War I inflation (1917–1918)
- Deflation of Great Depression (1929–1933)
- Post-World War II inflation
US CPI Inflation

Shaded areas indicate US recessions - 2015 research.stlouisfed.org
Big Picture Questions in Macroeconomics

What determines a nation’s long-run economic growth?
What causes a nation’s economy to fluctuate?
What causes unemployment?
What determines the price level?
Big Picture Questions in Macroeconomics

What determines a nation’s long-run economic growth?
What causes a nation’s economy to fluctuate?
What causes unemployment?
What determines the price level?
Can government policies be used to improve economic performance?
The US Trade Balance

Trade deficits of the 1980s, 1990s, and 2000s

World War II

World War I

Exports

Imports

Year


Exports and imports (percent of total output)
Dollars for one Euro
Big Picture Questions in Macroeconomics

What determines a nation’s long-run economic growth?
What causes a nation’s economy to fluctuate?
What causes unemployment?
What determines the price level?
Can government policies be used to improve economic performance?
What are the links between different nations’ economies?
Course Outline

1. Introduction to Macroeconomics
2. The Three Key Aggregate Markets in Macroeconomics
   2.1 Labor Market: Productivity, Output and Employment
   2.2 Goods Market: Consumption, Saving and Investment
   2.3 Asset Market: Money and Prices
3. Growth Theory
4. Theory of Economic Fluctuations
   4.1 Business Cycles
   4.2 The IS-LM model
   4.3 The AD-AS model
   4.4 (Neo-) Classical Models of Fluctuations
   4.5 (New-) Keynesian Models of Fluctuations
5. Macroeconomic Policy
   5.1 Monetary Policy
   5.2 Fiscal Policy
6. The Open Economy