

Intermediate Macroeconomics

Chapter 1 An Overview of Macroeconomics

An Overview of Macroeconomics

1. What is Macroeconomics
2. Macroeconomic Goals
3. Economic Theory in Practice

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1. What Is Macroeconomics?

- **Microeconomics** - study of behavior of individual economic agents.
- **Macroeconomics** - study of *aggregate* measures of the economy

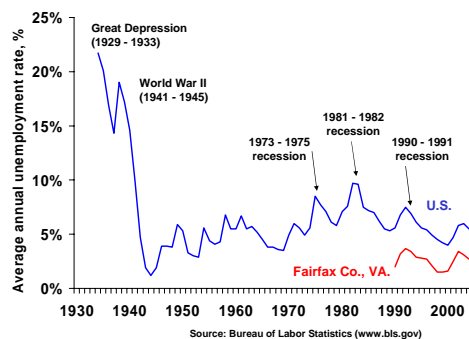
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2. Macroeconomic Goals

- Low Unemployment
- Price Stability
- Economic Growth
- Complementary and Conflicting Goals

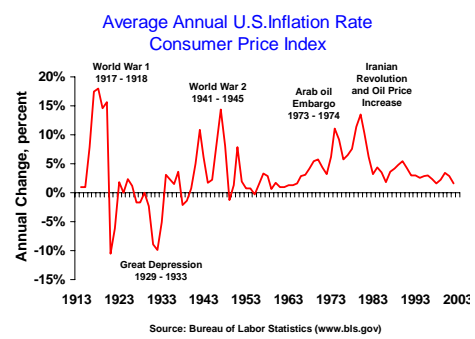
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2. Macroeconomic Goals Low Unemployment



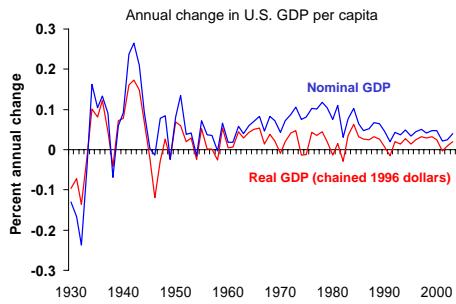
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2. Macroeconomic Goals Price Stability



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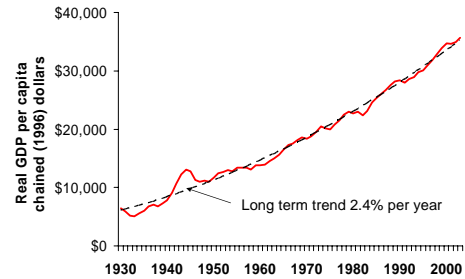
2. Macroeconomic Goals Economic Growth



Source: Bureau of Economic Analysis (www.bea.gov)

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2. Macroeconomic Goals Economic Growth



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2. Macroeconomic Goals Complementary and Conflicting Goals

- **Complementary Goals**
 - Low unemployment and high economic growth
- **Conflicting Goals**
 - Low unemployment and low inflation

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3. Economic Theory in Practice

- Economic Theory and Models
- Empirical Applications

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3. Economic Theory in Practice Economic theory and models

What makes a good model?

- Accurately explains history
- Makes reasonable predictions about the future

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3. Economic Theory in Practice Economic theory and models

Keep models simple

- **Occam's Razor** - eliminate complicating details that don't significantly contribute to the model
- **Ceteris Paribus** - other things being equal

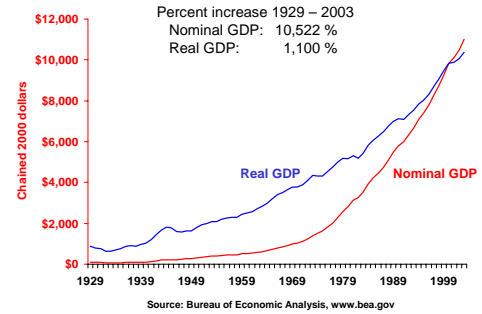
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3. Economic Theory in Practice Empirical time series applications

- Use **Real** rather than **Nominal** values
- Compare **Per Capita** rather than **Totals**
- Compare **Growth Rates** rather than **Levels**

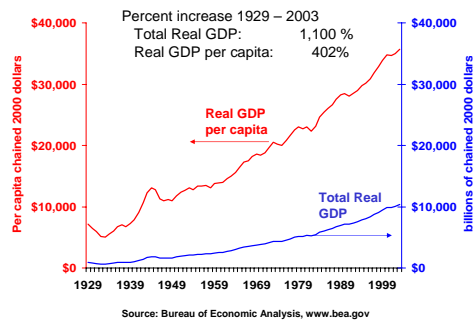
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3. Economic Theory in Practice Compare real rather than nominal



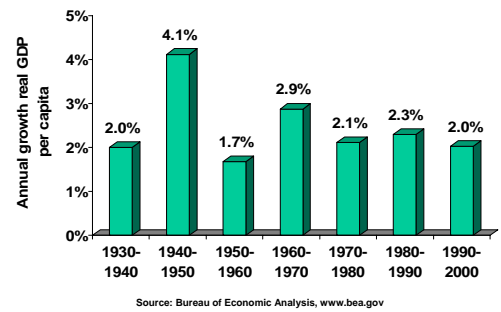
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3. Economic Theory in Practice Compare per capita rather than aggregates



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3. Economic Theory in Practice Compare growth rates rather than levels



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