

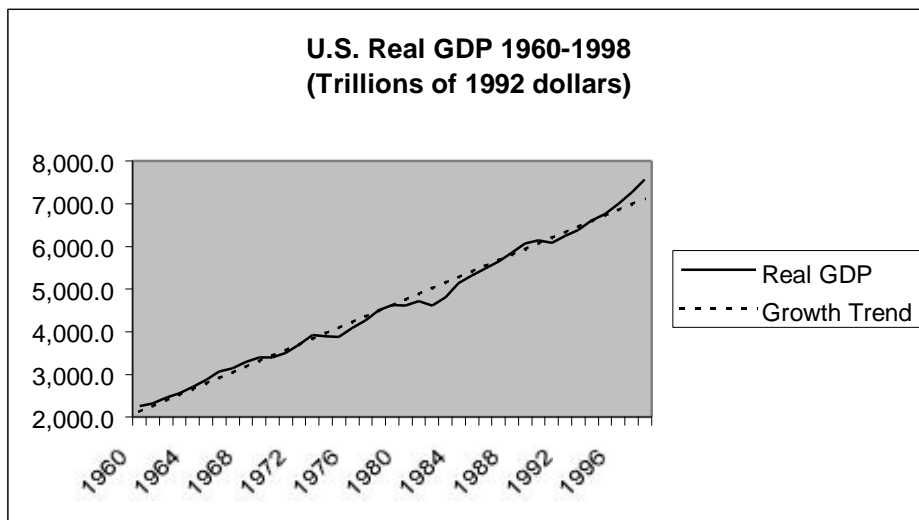
## Lecture 1: Introduction to Macroeconomics

### I. OVERVIEW

- Economics 102 is the first course in macroeconomic analysis. Designed to introduce you to basic concepts and tools required to study the overall economy.
- We ask big questions here; as a result we may not always agree on what the answer should be. Over the next 13 weeks you will learn basic concepts about measurement of prices and quantities for the whole economy, economic growth, business cycles, unemployment, inflation, fiscal and monetary policy, trade deficits, etc.
- All of these are topics you stumble across when you read newspapers and follow policy debates on T.V. The success of this course will be determined partially by your ability to intelligently assess articles on current economic issues in publications like the Wall Street Journal and the Economist at the end of the quarter.
- You do not need a license to be an economist: instead you need to be curious enough about the world around to identify relevant issues, you need to have analytical skills and economic intuition to study these issues and then identify appropriate policy responses.
- This class will begin to develop both the intuition and the analytical skill. How you choose to apply those skills depends on your natural curiosity and on my diligence in pointing out the relevance of the material.
- Administrative details about the course, such as the breakdown of grades, an outline of lectures, a listing of office hours etc. can be found in the syllabus.

### II. COURSE OUTLINE

- Look at graph of real GDP (output) for the United States plotted over time.



- What can we see?
  - a. Real GDP grows over time: economic growth
  - b. Along the growth path there are periods of fluctuations, seemingly in a cyclical pattern: economic fluctuations.

- This provides a roadmap for where we are headed. You should always be aware of the existence of a roadmap for this class: keep track of the big picture! Every lecture should be a logical progression from the lecture before and should lead into the lecture that comes next.
- The first 3 lectures introduce to National Income Accounting; as you may have guessed by the appearance of the word “accounting”, this is as exciting as watching paint dry. Nonetheless, this section will teach you about how aggregate measures of price and quantity are constructed, and what some of their potential flaws are.
- The next five lectures focus on economic growth: what determines an economy’s ability to produce more and more output over time. The answer turns out to be three things: labor, capital and technology. We will spend a lecture on each of these variables looking at how these 3 variables change over time. We will analyze why some countries have high rates of unemployment, what determines the level of investment in new capital, the role of openness in facilitating access to capital and technology as well as what steps can be taken to foster the domestic creation of new ideas over time.
- Following the first midterm, we focus on economic fluctuations: why does the size of the economy change over time, often in a periodic manner, moving from bad times to good times and vice versa.
- We first introduce a model called the Keynesian Cross, which we then develop into a more complete model known as the Aggregate Demand/Price Adjustment model.
- We then discuss the role that fiscal (government decisions on taxing and spending) and monetary (the Federal Reserve’s decision to change interest rates) policy have to play in minimizing economic fluctuations.
- Following the second midterm, we enter the home stretch: open economy macroeconomics. This section is split into two parts: international trade and international finance.
- The international trade portion introduces the concept of comparative advantage: what type of goods is a country relatively good at producing, and also introduces the often contentious policy debate on trade policy: what countries should we impose trade sanctions on, what is the impact of tariffs and other trade barriers etc.
- The international finance portion introduces you to the basics of exchange rates and exchange rate systems and discusses the structure of the international financial system.

### III. THE BURNING QUESTIONS

- There are some central questions that macroeconomics seeks to help answer. Throughout the quarter, everything we study is designed to directly or indirectly lead you along the path to answering these questions. At the end of the semester, we will reassess what we learned about these issues.
- Some of the questions raised include:
  1. How do we measure output and prices for a whole economy? Are there any problems with these measures, and if so, how can we improve upon them?
  2. Why are some countries rich and others poor?
  3. Why does the size of an economy fluctuate over time?
  4. What role do the government and the central bank play in helping to stimulate economic growth and in helping to minimize economic fluctuations?
  5. Should countries integrate themselves into the world economy, or should they continue to grow in isolation and fend for themselves?