Macroeconomics mba notes pdf

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AS / AD (continued) (PDF) 20 Recite 21 Lecture 15: Phillips curve (PDF) 22 Lesson 16: Review (pdf) A quiz 2 23 lesson 17: open economy as / ad (pdf) 24 lesson 18: introduction to Growth (PDF) 25 Recite 26 Lesson 19: SoloWÃ ¢ s Model (PDF) 27 Lesson 20: Technological progress (P DF) 28 Recital 29 Lecture 21: Technological progress and unemployment (PDF) 30 Recital 31 Lecture 22: Financial markets (Pdf) 32 lecture 23: Review (pdf) a quiz 3 33 lecture 24: Additional on financial markets 34 returned microeconomics tests is the social science that studies the consequences of human action, in particular on how these decisions influence the use and The distribution of scarce resources. Microeconomics shows how and why different goods have different values, such as individuals to make more efficient and more productive decisions, and how individuals better coordinate and cooperate with each other. In general, microeconomics is considered a more complete, advanced science, and established macroeconomics. Microeconomics is the study of economic trends, or what is likely to happen when people make certain choices or when production changes factors. Individual actors are often grouped into microeconomic subgroups, such as buyers, sellers, and holders of companies. These groups create the offer and demand demand, use money and interest rates as a charging mechanism for coordination. The uses of microeconomics as purely regulatory science, microeconomics does not try to explain what should happen in a market. Instead, microeconomics explains only what to expect if some conditions change. If a producer increases car prices, microeconomics says that consumers tend to buy less than before. If a large copper mine collapses in South America, the price of copper will tend to increase, because the offer is limited. Microeconomics could help an investor understand why Apple Inc.'s stock prices could fall if consumers buy a lower number of iPhone. Microeconomy could also explain why a higher minimum wage could force the WendyÃ ¢ s company to take fewer workers. Microeconomics can ask questions such as these that could have very vast implications for the economy; However, questions about aggregate economic numbers remain the responsibility of the macroeconomics, such as what could happen to China's gross domestic product (GDP) in 2020. Microeconomy method most modern microeconomic studies is performed according to the general balance theory , developed by LÃƒ © on Walras in elements of Pure Economics (1874) and the theory of partial balance, introduced by Alfred Marshall in principles of economics (1890). The Marshallian and Walrasian methods fall under the large umbrellas of neoclassical microeconomics. Neoclassical economy focuses on how consumers and producers make rational choices to maximize their economic well-being, without prejudice to the limitations of quantity of income and the resources they have available. Economists They do simplifying hypotheses of marketing as perfect knowledge, an infinite number of buyers and sellers, homogeneous goods, or static variable relationships to build mathematical models of economic behavior. These methods attempt to represent human behavior in Mathematical language, which allows economists to develop mathematically verifiable models of individual markets. As logical, neoclassical positivists believe in the construction of measurable hypotheses on economic events, therefore using empirical evidence to see which ones work better. Unlike physical or biologists, economists cannot perform repeatable tests, so their empirical research depends on the collection and observation of economic data from the real world markets. The economic efficiency of the markets is therefore determined by how good real markets adhere to the rules of the model. Basic concepts of the microeconomics The study of the microeconomics involves different key concepts, including (but not only): theory production (i) This is the study of a production or the input conversion process input. The producers try to choose the combination of inputs and method to combine them that will reduce to a minimum of costs, in order to maximize their profits. (Ii) Theory of utility similarly to the production theory, consumers will choose to buy and consume a combination of goods capable of maximizing their happiness or utility Ã ¢, subject to the constraint of how much income they have available to spend. (Iii) the theory theory of production prices and theory of utility interact to produce the theory of demand and offer, which determine prices in a competitive market. In a perfectly competitive market, it concludes that the price requested by consumers is the same provided by the producers. Which translates into economic equilibrium. (Iv) The industrial organization and structure of the microeconomists market study the many ways in which markets can be structured, from the perfect competition to the monopolies, and the modalities that production and prices will develop in these different types of markets. Key points Microeconomics studies the decisions of individuals and businesses to allocate production, exchange and consumption resources. Offers Microeconomics with prices and production in individual markets and interaction between different markets, but leaves the study of aggregates all the economy to macroeconomics. Microeconomists use mathematics as a language to formulate observational theories and studies to test their theories against real market world performance. Macro economy macroeconomics is a branch of the economy studying how it behaves, aggregated economy. In macroeconomics, phenomena The entire economy are examined as inflation, price levels, economic growth rate, national income, gross domestic product (GDP), and unemployment changes. Understanding macroeconomics there are two sides to the study of economics: macroeconomics and microeconomics. As the term suggests, macroeconomics looks at the complex, great scenery of the economy. Simply put, it focuses on the way in which it performs economy as a whole, and then analyzes how the different sectors of the economy in relation to understanding how the functions of economy. This includes watching variables such as unemployment, GDP and inflation. Macroeconomists develop models to explain relationships between these factors. These macroeconomic models and the forecasts they produce are used by government bodies to help in the construction and evaluation of economic policy, by companies to the strategy set on national and global markets, and by investors to predict and plan for movements in Various market markets. Given the enormous scale public budgets and the impact of economic policy on consumers and businesses, macroeconomics clearly deals with significant problems. Properly applied, economic theories can offer illuminating ideas on how the economies and consequences work for long of particular policies and decisions. Macroeconomic theory can also help individual businesses and investors to make better decisions through a more in-depth understanding of what motivates other parties and as better utilities maximize and scarce resources. It is also important to understand the limitations of economic economic Theories are often created in a vacuum and are missing some real-world details, such as tax costs, regulatory and transaction. The real world is also very complicated and their issues of social and conscience preferences that do not lend themselves to mathematical analysis. Even with the limitations of economic theory, it is important and worth to follow the main macroeconomic indicators such as GDP, inflation and unemployment. The performance of the company, and by extension their stocks, is significantly affected by the economic conditions in which companies operate and the study of macroeconomic statistics can help an investor make better decisions and spot turning points. Macroeconomics is the branch of economics that deals with the structure, performance, behavior and decision-making at all, or aggregation, the economy, instead of focusing on individual markets. The two main macroeconomic study areas are economic growth in the long term and shorter-term economic cycles. Macroeconomics first came to be distinct from microeconomics with the work of John Maynard Keynes and the arguments of him that macroeconomic aggregates can behave in very different ways from similar microeconomic phenomena. Preview Preview 1. MBA Macroeconomics William Neilson Marianne H. Wanamaker Department of Economics of the University of Tennessee in Knoxville in January 2010 Ã Ã ¢ Â © 2009 by William Neilson and Marianne H. Wanamaker 2. CHAPTER 1 MACRO DATA The media regularly reports on macroeconomics, and does so with a large number of different measures, including things such as GDP, CPI measure of inflation, unemployment, and so on. Each of these variables has an explicit definition, and understanding of definitions aids a lot in understanding the economy. 1. PRODUCTION AND INCOME The first macro variable output consider measures a countryâ ¢ s. Gross domestic product (GDP) is defined as follows: GDP is the value of all final goods and services newly produced in a country in a given period of time. In essence, the GDP measures the total productive activity countryâ ¢ s economy. Each phrase in the definition is important, though. Â§ Â§ Â Â Ã ¢ you want to add value to the total product amount, but requires the addition of apples and oranges. You have learned in elementary school that you should never add apples and oranges. However, the macroeconomy is the discipline in which we must add the apples and oranges, and we do it by adding the dollar value of all apples, oranges, and everything else. We want the final to add the value of everything produced. But, if you include a can of Pepsi, and also the degree of itself © (if produced in America), as well as aluminum (if produced in America) used to make possible, we count aluminum three times. But, the aluminum value is included in the value of the final can of Pepsi, in order to avoid double counting or triple counting simply end products. GDP does not count inputs. CHAPTER 1 A MACRO DATA Page 1 3. MBA macro § § § a a NEILSON and goods and services Wanamaker Ã ¢ We count everything produced in the country. This includes tangible assets such as Pepsi cans, cars, or fish tacos, but also includes services such as haircuts, brokerage and legal services. Note that many goods (such as Dell) computers come with services (the retail services provided by Best Buy). new production Â used 2005 GMC Yukon was counted in GDP in 2005, when it was produced. If it is also sold in 2009, it should not be considered again in 2009 GDP. We avoid counting again requiring that all goods and services are newly produced. Note, however, that all the retail services and financial involved in the sale of used cars contribute to 2009 Since these services are newly produced. In a country to producer nationality no matter, as long as production takes place in the country. So, NissanÃ ¢ s assembled in Tennessee count for US GDP, not Japan GDP. Two two Makes the government passed by PNL signaling (gross national product) for the signaling of GDP. GDP counted All produced by a ceremony of a countryÃ ¢ s, so that the NissanÃ ¢ s assembled in Tennessee would have counted for Japan, but not for the United States. GDP best reflects the global nature of the economy. In a given period of time Ã ¢ The United States reports Quarterly GDP, but the number reported is for an entire YearÃ ¢ s worth the production. To see how the definition works, assess whether the following elements are included in 2009. 1. The milk sold to consumers in 2009? Yes, it's a good finish. 2. Does milk sold to cheese manufacturers in 2009? No, this is an entrance. 3. The sale of a 10-year-old house? No, he was not recently produced. The various legal, financial, title, broker, and other taxes count, though. 4. A new building for the AubreyÃ ¢ s restaurant? Yes. It is not an entrance, since it is not used in the production of AubreyÃ ¢ s foods. 5. Grain cultivated by US farmers and sold to a Jamaican brewery? Yes. It was produced in the USA, and it is a good ending from the United States point of view. It is an entrance to Jamaica. 6. Meth Illegal products and sold in a garage in Raleigh, North Carolina? Yes, but it's difficult to count. You can think of GDP in three different ways. One is as a total production of CountryÃ ¢ s in a year, an interpretation that coincides with the definition given above. A second interpretation is as the total amount of a country's income earns in a year. To see the connection between the exit and income, think of the next process. A farmer cultivates apples and sells them to a sidro-maker. Chapter 1 A Macro Data Page 2 4. MBA Neilson Macro and Wanamaker Quantity of this transaction is the income FarmerÃ ¢ s. The cider-maker transforms apple into cider and sells it from the back of his truck. The price of the cider minus the price of apples is the shidden-maker ¢ s income from the transaction. The good ending is the cider, and its price is added to GDP. The price was divided between the sidro-maker and the farmer, so that the whole price has become someone's income ¢ s. So, the Pil = income. The third interpretation of GDP is the expense. The link between exit and the expense is relatively simple: if someone produces it someone else must buy it. GDP adds the total value of new goods and final services sold on the market. If everything is sold (WEA will obtain inventories soon), then total production = total expense. For what we are going to do in the next chapters, GDP interpretations such as income and spending are vital. Interpretation as an exit is that used for GDP actually calculating. The expense interpretation can lead to a further subdivision into components, and these are listed in Table 1.1. Table 1.1 Spending GDP Components ($ billion, 3th quarter 2009), GDP $ 14.302 Consumption 10,152 durable goods Non-durable assets Investment services 1,579 Business Fixed investments Fixed residential investments Variation of inventories Public spending 2.958 State and local federal (388) Net export exports 1,563 goods services imports 1.951 goods services chapter 1 a macro data 1.056 2.244 6.852 1.366 361 (147) 1.164 1.794 1.038 525 1,573 378 Page 3 5. MBA Neilson Macro and Wanamaker far the largest spending component Ã ¨ Consumption, which is defined as the spending of families on everything, except for new homes. Consumption includes about 70% of GDP, and held this action, for a very long time. Consumption can be further divided into three categories: durable goods, non-durable goods and services. Durable goods are things like cars and appliances, many of which consumers finance through loans. Services are things like haircuts, Repairs, theater films, and food in restaurants. American families spend most of their money on services. Durable good purchases are more volatile and respond more to changes in the economy. Investment is the expense for new goods and final services by companies, and also the expense for new homes from consumers. In in Investments include inventory changes, to take account of the possibility that a company produces something in a year, but sells it in a second year. The government spending is spending by the government on new, articles and final services. About a third of government spending arrives at the federal level, and about 70% of what was spent on defense. State and local governments spend on education, law enforcement and so on. It's important to note that the contribution of federal spending to GDP is not the same economic expenditures of the federal government. For example, the federal budget for FY 2009 was $ 3.1 Katherine, which did not include expenses on the war. Much of this spending was not on new goods and services, and was instead on transfer payments (by a taxpayer to another) or interest on the debt. It happens so that the total spending component of the government's GDP is about the same as the budget of the federal government, but this is just a coincidence (and the one that has persisted for a long time). The final component of GDP expense is net exports, defined as imports of exports minus imports. Exports are goods produced in the US but consumed abroad, so they should be included in GDP. Imports are goods bought in the United States but not manufactured in the United States, so they should not be included in GDP. However, some of the goods and services purchased by consumers (such as TV) are important, so imports are counted in the other expenditure components. 2. Prices and inflation Inflation is a measure of how the prices change over time. The problem for the people of the data is that different prices change at different rates and at different times. So, data collectors must come up with a way to sum up all the price changes. The best known way to do this is by using the consumer price index (CPI). To calculate the CPI, the Bureau of Labor Statistics (BLS) identifies a bundle of goods and services consumed by a family Ã ¢ â,¬Å Typical "in a Ã ¢ â,¬Å TypicalÃ ¢ â ¬ Chapter 1 Ã ¢ ¬ "Page 4 6. MBA macro Neilson month of Wanamaker. Every month the BLS sends teams, across the country, to record the prices of these goods and services. The total price of the goods and services package is the consumer price index. Inflation is the rate of growth of the CPI. For example, the CPI was 208.9 in October 2007 and 216.6 in October 2008. The growth rate is 216.6 Â Â Â ¬ 208.9, 100% to A ½ 3.7% , 208.9 And this is the inflation rate for the year. The inflation rate shows that consumers' costs have an average of 3.7% more to buy the same set of goods a year later. In general, the formula for a growth rate is the growth rate Â Â ¬ ¬ ½ new book Net book antique value, 100%. The old value recalls that GDP is the value of all the goods and services produced again in a country during a given period of time. The value of goods and services could increase for two reasons, an increase in the amount of goods and services and an increase in the price of goods and services. If we want to measure the economic changes in activity, we want to focus on changes in the amount produced and not changes in underlying prices. To do so we use real GDP. Real GDP is the value of all goods and services produced again in a country during a given period of time, just like the normal GDP (called nominal GDP), but this time the prices used to measure the value are not current prices, but instead the prices of some base year. A very simple (some might say lame) example shows what is happening. Table 1.2 shows data for an economy that produces only two goods, food and clothing. The table shows both prices and quantities. Table 1.2 DATA For a year economy year product year quantity product 2008 food 500 6 clothing 200 30 2009 Food 600 5 clothing 150 60 The first step is to calculate the nominal GDP for the two years. For 2008, this is Chapter 1 Ã ¢ â,¬ "Macro Data Page 5 7. MBA Macro Neilson and Wanamaker 2008 GDP = (500) (6) + (200) (30) = 9,000 GDP GDP = (600) (5) + (150) (60) = 12,000. These are these The figures of the nominal GDP, and it seems that the economy grew from a third during the year. But also notice from the table that the price of the clothing has doubled over the year, so it could be that growth was all inflation and not effective growth. To discover, Comuta Real 2009 GDP using the 2008 base prices. That is, multiply the quantities of 2009's 2009 prices for the 2009 real GDP processing: 2009 Real GDP = (600) (6) + (150) (30) = 8,100. Using the 2008 prices, the 2008 output valued $ 9,000, and the 2009 output was worth $ 8.100. The real GDP has been reduced during the year, even if the nominal GDP has grown. The important point here is that real GDP reflects the actual economic activity, while the nominal GDP reflects both the activity and inflation. Figure 1.1 shows how real GDP has changed over the years. The figure shows that real GDP increases, but does not offer much details. Figure 1.2 shows the annual GDP growth rate, which is more informative. Chapter 1 Ã ¢ â,¬ "Macro Data Page 6 8. MBA Macro Neilson and Wanamaker As you can see from the figure, the real GDP growth rate fluctuates quite a bit. Low growth rates are associated with recessions (although technically technically A recession requires two consecutive quarters of negative growth), and high growth rates are associated with expansions. The periods that stand out in the last 50 years are the half of the 1970s with the recession caused by high oil prices, the first 1980s with the recession caused specifically for reasons discussed in subsequent chapters, and at the beginning of 2000 with the recession caused by the September 11 attacks. High-growing periods occurred during the second term of the second term of Reagan (half of the 1980s) and the termination of Clinton (at half of the 90s). Figure 1.3 shows the inflation rate through the same period. Inflation has been low throughout the period except Which for the period of 1972-84 when oil prices have increased dramatically. Chapter 1 Ã ¢ â,¬ "Macro data Page 7 9. MBA Macro Neilson and Wanamaker compared to many other countries, the United States has low inflation. In contrasts, some countries have recorded annual inflation rates greater than 100% or even above 1000%. An extreme case is happening right now in Zimbabwe. Inflation hit 231 million percent in July 2008 and the December 2008 estimates suggested that the inflation percentage was an 8th 18-zero followed by . These cases of hyperinflation can turn off an economy because no one wants to cling to the currency of the country. Think about it. Friday Friday $ 4000 at 2:00. At 4:00 the same day your pay is worth only $ 1000. So what You would do? I spent $ 4000 the instant you understood. Or, more likely, you wouldn't find it useful to work for the $ 4000, instead preferring to work somewhere that paid you in negotiable raw materials like food instead of non-marketable ones com And cash. In fact, the economy as we know that goes out. In fact, schools in Zimbabwe have closed because teacher salaries do not cover the bus rate more to work. The deflation or prices of the fall is also bad. When prices fall, especially if they are falling quickly, people are waiting to buy to take advantage of the lowest prices. If everyone is waiting, nobody is buying, and once again the economy gets to stop. Not everyone loses from inflation. The borrowers, for one, are better when prices go up. The reason is that the money that repays are worse less than the money they have borrowed. For the same reason, the creditors are injured because the money they are paid return to value less than the money they have lent. Deflation has opposite, helping creditors and hurt borrowers. Chapter 1 Ã ¢ â,¬ "Macro data Page 8 10. MBA Macro Neilson and Wanamaker 3. Unemployment as GDP, the unemployment rate has a very specific meaning. To arrive, there are several useful intermediate steps, summarized in Table 1 . 3. The population is all in the United States. Of these, we greet from the consideration people under the age of 16, in the military, and in prison, because these people cannot enter the civil workforce. Not everyone wants to work, though , because some are inside inside Some are retired, and some want to stay at home. The people who are entitled to work and want to work at the salary that goes include the workforce. To be at the workforce an individual must or be employed or actively seek occupation. It may surprise you to see that in a country with more than 300 million people only about the half of them are in the civil workforce. The participation rate is the fraction of work eligible people who want to work. The unemployment rate is the fraction of people in the workforce that fail to find a job. Or, in other words: the unemployment rate is the fraction of individuals who are authorized to work in civil workplaces and want to work at the market salary, but fail to find jobs. In November 2009 the unemployed constituted 10.0% of the workforce, so that it is the unemployment rate. Figure 1.4 Show historical data. Table 1.3 Data unemployment, November 2009 (millions of people) Population 308.0 civil, non-institutionalized, more than 16 236.8 Work forces 153.9 Participation rate employed 138.5 unemployed 15.4 unemployment rate 65.0 % 10.0% One of the important phrases in the definition of unemployment is at the market salary. Presumably everyone would want to work if the salary was quite high. For example, a new mother stay-at-home could be willing to go back to work for $ 10,000 per hour. But the market salary is no $ 10,000 for now, so that it is irrelevant. Chapter 1 A macro of page 9 11. MBA Macro Neilson and Wanamaker There are two ways for the unemployment rate to decrease. One is for more people in the world of work to find jobs. The other is for people to leave the workforce, essentially giving up trying to find a job. The unemployment rate is simply a fraction given by the unemployment rate Ã¨ Â½ # unemployed. # In the workforce when someone gets a job at the numerator goes down, but the denominator remains the same. When someone without a job leaves the labor market both the numerator and the denominator of the fall. In both cases the unemployment rate drops. There is an evident link between unemployment and real GDP. Real GDP measures the quantity of stuff that the economy produces. To produce this stuff, companies need workers employ. So, the most workers are employed, the stuff more can be produced and the real GDP is higher, and the lowest unemployment rates correspond to higher levels of real GDP. You will notice in Figure 1.4 that the unemployment rate seems to have cycles. These cycles reflect what is known as the economic cycle, and most we will discuss in the next chapters is a model of the economic cycle. Cycles move around something, and from the graph above it seems that, except for the periods of late recession of the 70s and the early 1980s, the unemployment cycle has fluctuated around a number in the range of 5.0 6.0%. This number, even if not determined explicitly, is called the natural unemployment rate, and Chapter 1 a macro data page 10 12. MBA Macro Neilson and Wanamaker plays a key role for the analysis of the economy. The unemployment rate is also the simplest indicator of the health of the economy. The argument is worth spelling out. The definition is started: the natural unemployment rate is the unemployment rate that occurs when the markets of clear work, so that it is not upwards and pressure on wages. The natural rate is somewhere between 5.0 and 6.0 percent. When the unemployment rate is below 5.0%, the labor market is tight and employers must offer higher wages to attract workers. This, in turn, puts upward pressure Production prices, and inflation leads. When the unemployment rate is above 6.0%, the labor market is loosened and work candidates are easy to find. Business can actually offer new employees lower wages, which leads to downward pressure on wages and prices. If the unemployment rate is below the natural rate, the economy is in full expansion. If it is above the natural rate, the economy is in difficulty. The economy can or cannot be in recession due to Technical definition of recession (two consecutive quarters of negative real GDP growth), but an unemployment rate greater than 6% means a unhealthy economy. When the unemployment rate at the natural rate, the economy can produce a certain output level. The real GDP level coincidence with the natural unemployment rate is called potential GDP. It is the output level when all the inputs, including the job, are fully used to the extent that there is no upwards and price pressure. 4. Money as with GDP and unemployment, money has a very specific definition. The money is what we use to pay for things. We can use cash or we can write a check. We can also use a credit card, but simply by borrowing, and therefore the credit card account is paid both in cash or with a check. The macroeconomic definition of money is based on how we pay for things. In particular, the largest common measure of money, called M1, is the total currency and auditing accounting balances. In December 2009, M1 was $ 1,68 trillion. Of these, $ 860 billion are money. Think of this: $ 860 billion in currency amounts more than $ 2600 in currency per person in the United States. Where is it? The answer is that most abroad. Many countries have unstable currencies, and for their citizens the best place to keep their savings was in US dollars instead of local banks. So, while Chapter 1 of a Macro Data Page 11 13. MBA Neilson Macro and Wanamaker Inflation Eat away The value of the local currency, the dollar was still worth it, well, a dollar. Most of this money is held abroad is in fifty and one hundred dollar denominations. Is it a good thing or a bad thing that foreigners holding so much of our currency? It could be a good thing. The way they got the currency was with the sale of Americans a good or service. In exchange for good or service, the foreigner accepted a piece of paper with an image of an American relief on it. While the foreign country provided Americans of goods and value services, the United States did not have to provide goods and services in return. In essence, we got such goods and services for free, and will remain free until foreigners are willing to hold on dollars. It is seigniorage, a case in which the government makes a profit from the press of money. In this case the profit came from foreigners who take the coin from circulation. The government also benefited from the release of the state quarters. About 150 million people began to collect coins, taking them from circulation. In essence they Ã ¢ quarters boughtÃ ¢ for 25 cents each. Every fourth cost about 10 cents to do, and the government has gained over $ 5 billion of seignior. The quantity of money in the economy is controlled by the Federal Reserve Bank, commonly referred to as the Fed. The Fed is not limited to printing money and inject it in the economy. Instead, it does it a dollar per dollar capital exchange. If the Fed decides that it wants to increase the supply of money, buy US Treasury Bonds by the public. This removes treasure good by public companies, but increases the amount of money in the hands of the public. No one is made rich or poorer than the transaction, it is simply a change in the types of activities people have. Likewise, if the Fed decided to decrease the amount of money, it sells US Treasury Bonds to the public, so that the public holds more treasure good, but less money. When the media reports a change in monetary policy, we talk about the Fed by raising or lowering interest rates. In reality there are two relevant interest rates The rate on federal funds is the interest rate to which banks provide funds to other banks during the night. The discount rate is the rate to which banks can borrow funds from the night Fed. When the Fed increases the monetary mass, both of these interest rates come down, making the cheapest loans. So, when the press news that the Fed is lowering interest rates, means that the Fed is increasing the supply of money. Figure 1.5 shows how the IL The funds rate has changed over time. If you compare the last four graphs presented in this chapter, you may notice the following models. First, the federal funds rate was high when inflation was high. © what happens because the rates of inflation and interest rates tend to move together. Second, the federal funds rate tends to fall when the unemployment rate rises and falls GDP growth. These relationships will be explained in later chapters. Chapter 1 Ã ¢ â ¬ "macro data Page 12 14. MBA Macro Chapter 1 Ã ¢ â ¬" Macro Data Neilson and Wanamaker Page 13 15. Chapter 2 Macro Models A large part of what macroeconomists make models of ' economy. The purpose of this chapter is to describe what is meant by a Ã ¢ â,¬Å ModelÃ ¢ â ¬ economy, identify good models share characteristics and explain why © models are important. © 1. Why a model? The models are used in many different fields. For example, the architects create scale models of buildings that design and the surrounding areas so that customers can see how their property will take care of the project. The automotive engineers create scale models of cars and use them to test everything from aerodynamics to consumer response. The washing machine and the dishwasher manufacturers build clear models of their products so that consumers can see the characteristics of the machines in operation. All of these models serve the same two objectives: understanding and prediction. Continuing one of the examples, the automobile model aim is to understand more about how the different features of the exterior design of the car and the aerodynamics contribute to predict how will handle. A macro model is a mathematical framework that describes the economy. A mathematical structure is a series of equations. So, when we build a macro model, we will write a series of equations that describe the economy. The set of equations can therefore afford both to understand more fully the economy and to predict what will happen to it. Macroeconomists build models for the same two reasons why other professionals build them: understanding and prediction. Each equation reflects an important part of the economy, and when put together the equations describe the whole economy. Sintengo well the equations in the model, macroeconomists learn more about how the economy works. At the same time, they become better able to predict how the economy will respond to changes. What's more, if their forecasts are good enough, they may even try to manipulate the economy to counter the effects of any changes. Chapter 2 Ã ¢ â ¬ "macro models Page 14 16. MBA Macro Neilson and Wanamaker in this course The macro model serves three purposes. First, it introduces you to do what macroeconomists. Second, it provides a way to understand how the economy works. third, it allows you to predict how the economy will respond to the changes and how policy makers try to counteract those changes. © 2. why a mathematical structure? not everybody likes math. So why © we are using a mathematical framework to describe the economy? to answer this question, we must first determine what the alternative is. the more precisely, if we do not use mathematical equations, what we would use? the only real alternative to the mathematical equations it ¨ stories, or verbal descriptions of how the economy works. verbal descriptions are good alternatives to mathematical ones when the arguments are simple. as they become more complex, the equations matemat ic become increasingly useful for at least three reasons. First, when the issues become complex it is easy to leave parts of them. With mathematical equations it is much more difficult to forget things. In Place, work through mathematical equations gives you an answer in which you can be sure. This is not always the case with the verbal arguments. The third, the mathematical equations sometimes lead to conclusions that you would never have sought with verbal arguments. An example is reported in section 4. Accuracy and trust are they are the only reason to use a mathematical structure. A third reason for the use of equations is that policy makers, like the Fed, the Office of Management and Budget (which oversees the creation of the budget that the President submits to Congress), and the Congressional Budget Office (which provides the analysis used by Congress to legislate the budget) using systems of equations to describe the economy. They use more equations that there will be, and their equations are more complex than our will, but there will still be using the same general process they use. 3. The characteristics of a good macro model as we have already said, a macro model is a set of equations describing the economy. We do not want any set of equations, though. There are some additional requirements that make the model of a good: CHAPTER 2 A MODEL MACRO PAGE 15 17. MBA MACRO NEILSON E Wanamaker characteristics of a good model MACRO 1. It should include the variables that we want to predict. 2. You have to capture the most important factors whose effects we want to establish. 3. The equations must be consistent with the manner in which the variables are defined and measured. 4. Equations should be easily defended. 5. It should make predictions that are qualitatively consistent with the real world. 6. It should be easy to use. These six characteristics can be examined one at a time. 1. The model should include the variables that we want to predict. In the five previous chapters we learned about various macro variables that are significant indicators of how the economy is doing, particularly GDP, inflation and unemployment. GDP measures the total output of the economy, and also its total income. inflation measures how fast prices are rising. unemployment measures how many people who would like to work can not find jobs. Since these are the main variables used to indicate the health of the economy, any model of the well should help predict how these variables change over time. So, the model should include these three variables. There is another variable that should be included, although it is one that did not get a separate discussion in the previous sections. Interest rates are important for the economy in many ways. They determine both loans and mortgages, and can make or break the decision of whether or not a business embarks on a new project or a family buying a new home or a new car. The model should be able to predict interest rates along with the other three. 2. The model should capture the most important factors whose effects we want to establish. Several variables can affect the economy. Some of them are controlled by government, and some are not. We should at least be able to determine the effects of changes controlled by the government. These are changes in public spending, tax changes, and changes in the money supply. Public spending and taxes are controlled through the budget process, and for the federal government involves both the White House and Congress. The Governments of the States also affect spending and taxes, and these are important MODELS CHAPTER 2 PAGE 16 18. MBA a macro MACRO NEILSON and Wanamaker considerations, too. The money supply is determined by the Fed, which is independent from the White House and Congress. Another factor deserves some attention, primarily because © receives considerable media attention. Monthly consumer confidence reports in the media, which is related to how much consumers spend on durable goods. The idea is that if consumers are confident that the economy will do well and their income will be high, they will go ahead and purchase the goods Expensive, but if you expect the economy to hurt will be postpone such purchases. So, add the consumption models to our factors list whose effects the â €

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