Today's Agenda

- Discuss the Syllabus

- Take a Tour of the Macroeconomy

Readings for this lecture: The syllabus (available on Canvas)

Readings for next lecture: Chapter 9, Sections 9-1, 9-2, 9-3 (pp. 219-235)

Upcoming Due Dates:

Homework 1: Complete by 11:59 p.m. on Friday, April 3

Chapter 9 Reading Questions: Complete by 11:59 p.m. on Monday, April 6

What is Macroeconomics?

The study of the performance of the national economy.

Key Questions:

- What is the "National Economy" and how can we measure it?
- What are the key metrics of performance?
- What types of events affect macroeconomic performance and how?
- What does good performance look like?
- What can be done about bad performance?

Learning Objectives

It is my goal that you leave this class:

1) With an improved understanding of what the macroeconomy is and how it is measured.

2) With a framework (a model) that you can use to think about how various events will influence macroeconomic performance.

3) With an appreciation for the role that government policy plays in influencing macroeconomic outcomes.

A Brief Tour of the Macroeconomy

Today we will take a brief tour of the macroeconomy, visiting a few key topics:

- Real Gross Domestic Product
- The Business Cycle
- Unemployment
- Inflation
- Monetary and Fiscal Policy

Real Gross Domestic Product

How many **goods and services** are produced in the national economy in a year?

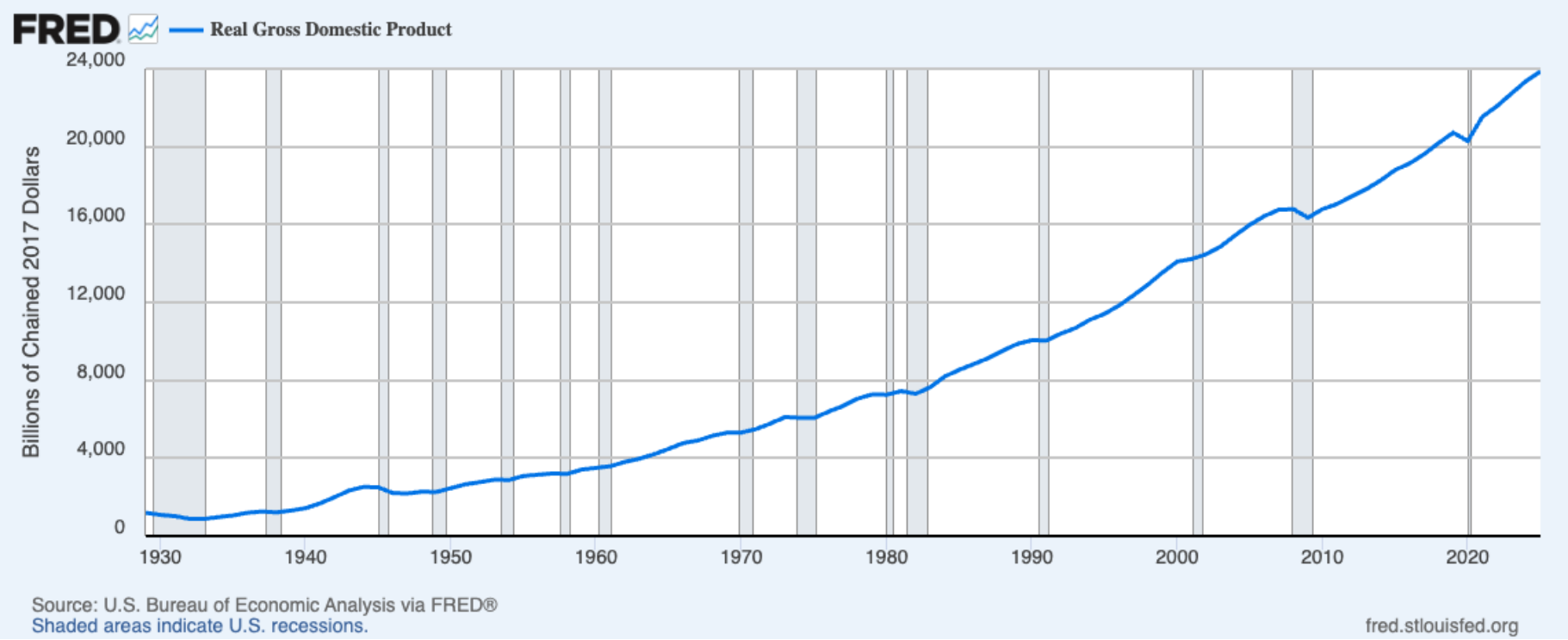
We measure this concept using **Real Gross Domestic Product (GDP)**

We will learn that real GDP is simultaneously equivalent to a nation's **aggregate spending, aggregate income, and aggregate output**.

The real GDP of most countries has grown significantly over the past 100 years.

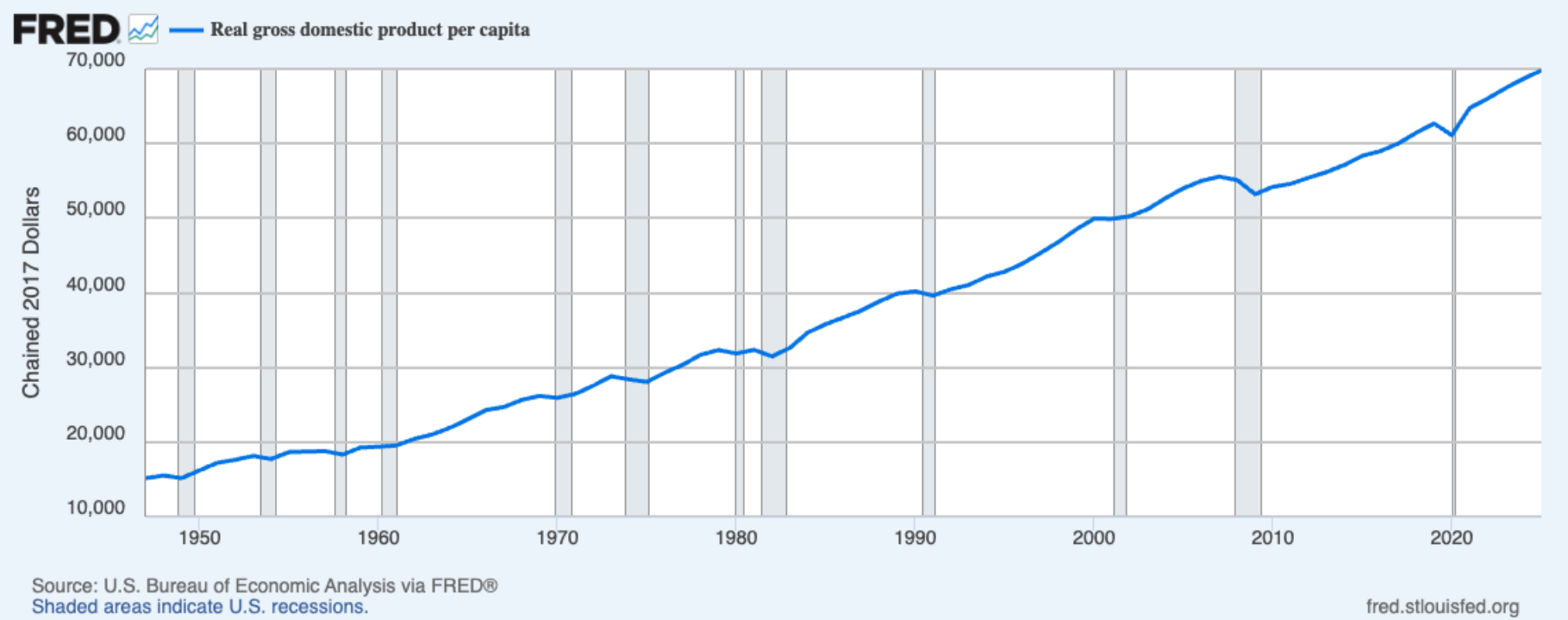
Real GDP in the United States

(annual, billions of 2017 dollars)



Per-Capita Real GDP in the United States

(annual, 2017 dollars)



Business Cycles

Real GDP does not always grow at the same rate. There are potholes in the road.

The **business cycle** refers to the fluctuations in real GDP

Business Cycles

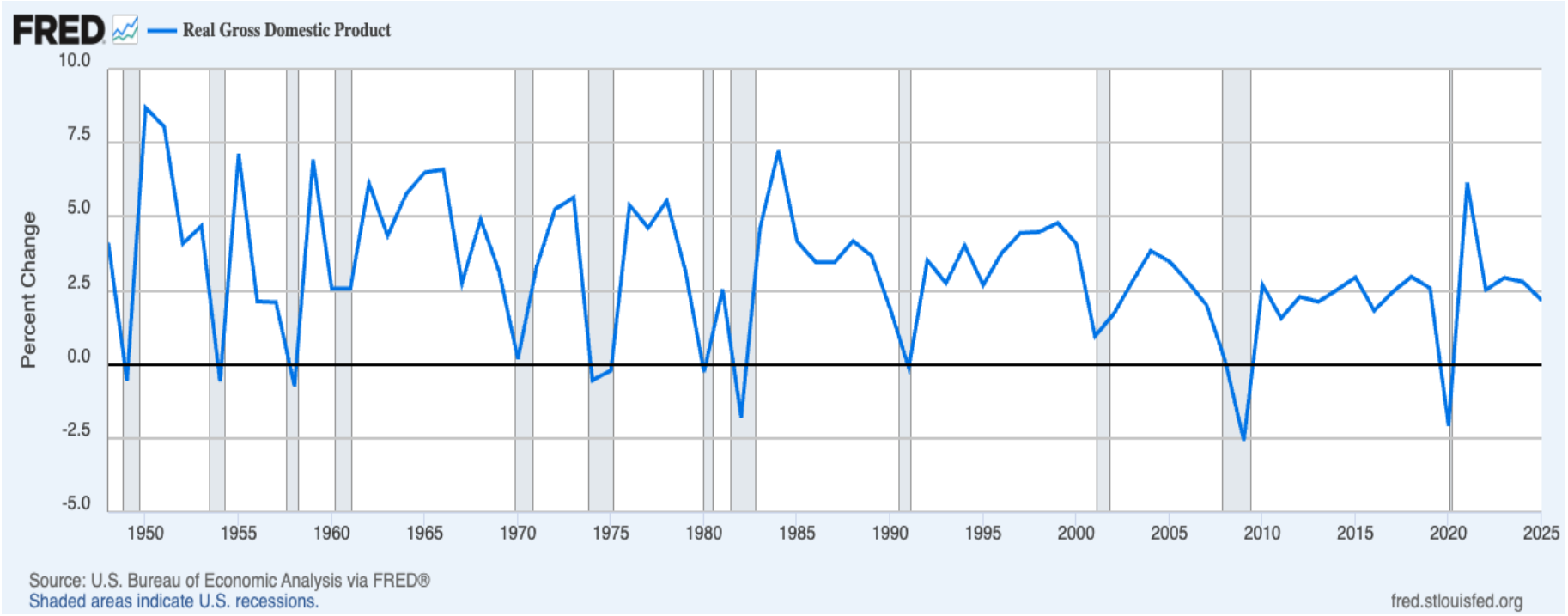
Every business cycle has two phases: an **expansion** and a **recession.**

- **Recessions** are phases of persistent decline in production
- **Expansions** are phases of persistent increase in production
- **Business Cycle Peak:** the turning point between expansion and recession
- **Business Cycle Trough:** the turning point between recession and expansion

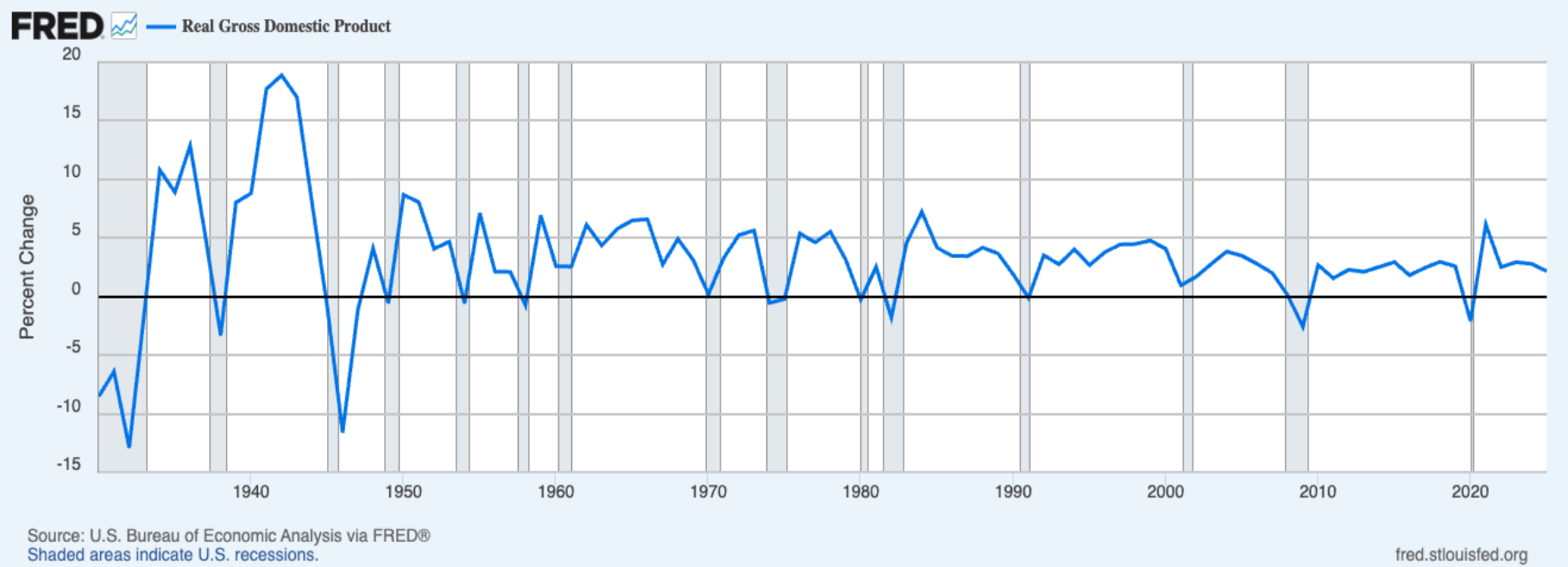
A complete business cycle episode follows this sequence:

expansion –> peak –> recession –> trough

Business Cycles in the United States
(Percent Change in Annual Real GDP – After WWII)



Business Cycles in the United States
(Percent Change in Annual Real GDP – Longer Sample)



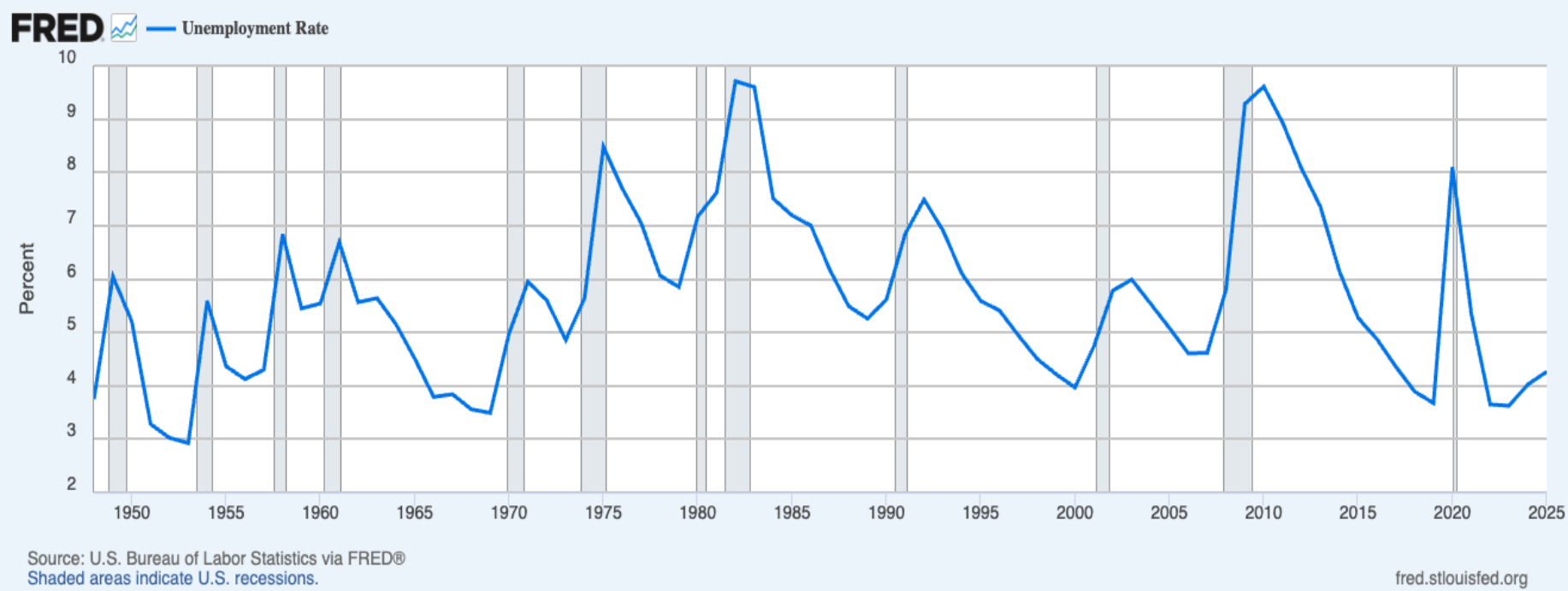
The Labor Market

- The **labor market** is how most of us interact with the macroeconomy.

- The labor market refers to the aggregate activity of firms searching for workers and workers searching for employment.

- One way we measure how the labor market is performing is the **Unemployment Rate**

Unemployment Rate in the United States
(Percent of Labor Force)



Inflation

- Inflation refers to percentage increases in the overall level of prices over time.

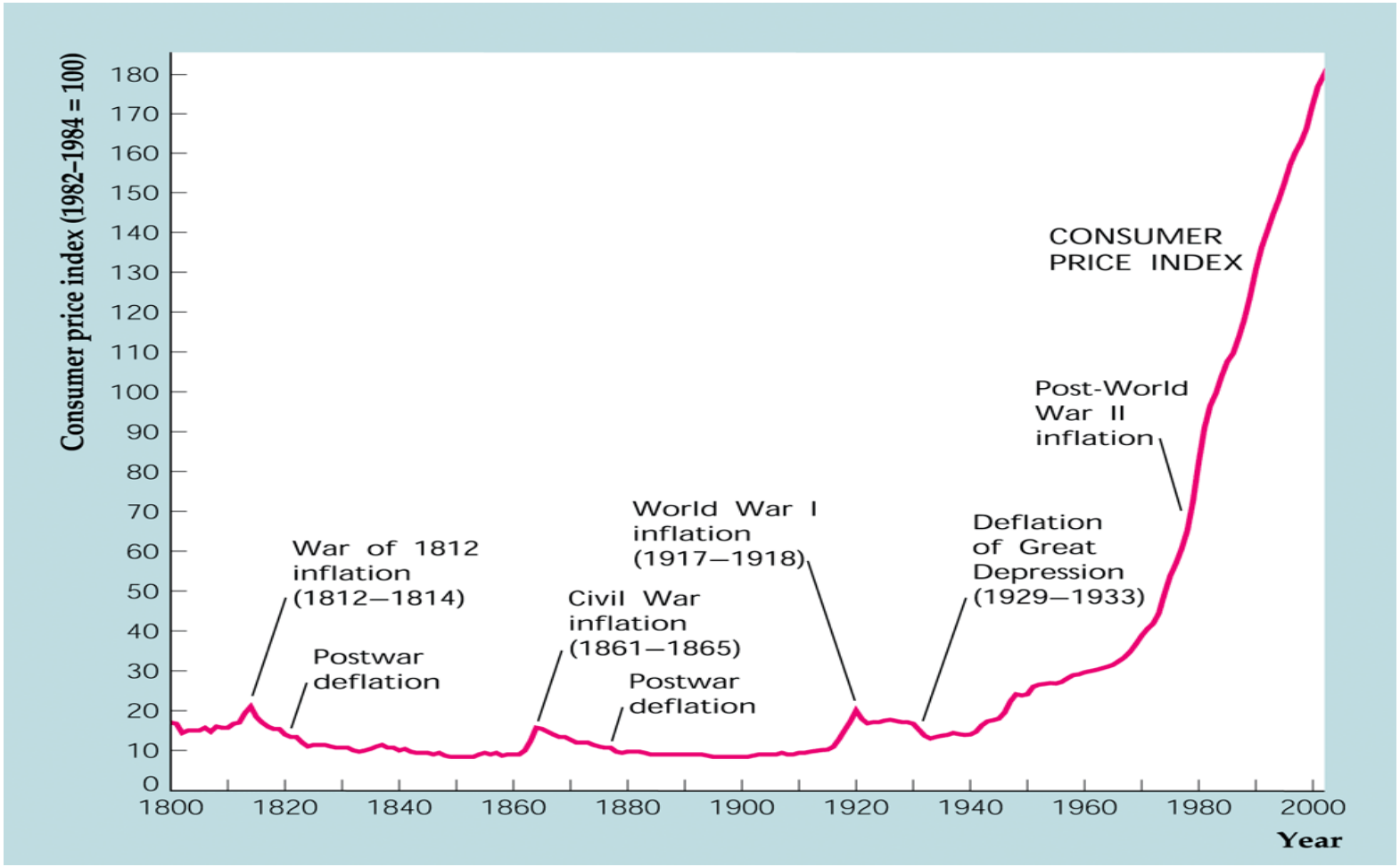
- We measure the overall level of prices using a **Price Index**.

- The most well known price index is the **Consumer Price Index**.

- If the price index falls, we call it **Deflation**

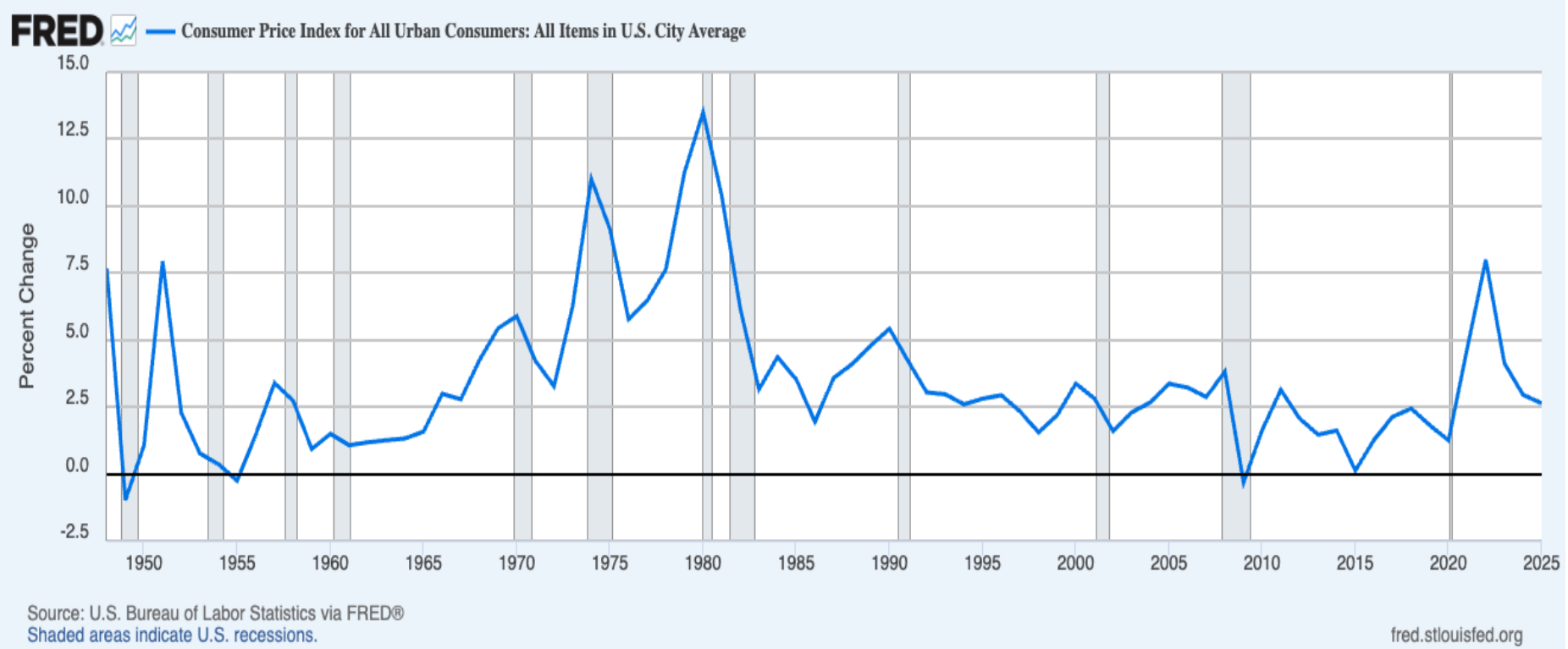
Inflation

Consumer Price Index in the United States Since 1800



Inflation in the United States since 1950

(Percent Change in Consumer Price Index)



Government Policy and the Macroeconomy

Questions surrounding government policy play a central role in macroeconomics.

The primary tools of U.S. macroeconomic policy are:

- **Fiscal Policy:** The use of the federal budget, by setting and changing tax rates, making transfer payments, and purchasing goods and services, to achieve macroeconomic objectives.

- **Monetary Policy:** Changes to the quantity of money and the level of interest rates in the national economy. Monetary policy is the responsibility of the Federal Reserve.