

# Chapter 5: Introduction to Macroeconomics

Week 2

Presenter:Zheng Zhang

Jan 25, 2012

# Table of Contents

- 1 The Roots of Macroeconomics
- 2 Macroeconomics Concerns
- 3 Government in economy

# Macroeconomics

Figure 1: Macroeconomics



## Questions

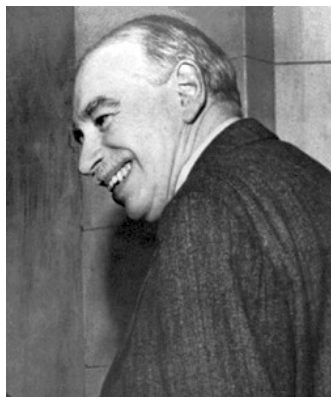
- what is the difference between Classical econ and Keynesian econ?( *2011Mid1 M6;2012Mid1 M8*)
- What is **sticky price** vs. flexible price? (*2012Mid1 M8;2011Mid1 M15*)
- What is fine tuning?(*2010Mid1 M36 Page 219*)
- What is stagflation?

## Classicals v.s. Keynesians

Just as in the history of music and art there has been classicalism vs romanticism with each dominating for a period of time. In economics, Classical School and Keynesian School also alternate to dominate Macroeconomics.

## Keynes vs Hayek

The rival of a century: Friedrich Hayek(1899-1992) vs John  
Keynes(1883-1946)



## Keynesian vs Classical

2011Mid1 M6 Page 203

According to \_\_\_\_\_ economists, the economy is self-correcting.

- A command system
- B Keynesian
- C Classical
- D Marxist

*Back*

## Keynesian vs Classical

2011Mid1 M6 Page 203

According to \_\_\_\_\_ economists, the economy is self-correcting.

A command system

B Keynesian

C Classical

D Marxist

*Back*



## Keynesian vs Classical

2012Mid1 M8 Page 192

According to John Maynard Keynes

- A an excess supply of labor would drive down wages to a new equilibrium level.
- B unemployment could not persist.
- C there is no role for government in the economy.
- D government could intervene in the economy and affect the level of output and employment.

*Back*

## Keynesian vs Classical

2012Mid1 M8 Page 192

According to John Maynard Keynes

- A an excess supply of labor would drive down wages to a new equilibrium level. flexible price assumption
- B unemployment could not persist. sticky wage may lead to persistent unemployment
- C there is no role for government in the economy.
- D government could intervene in the economy and affect the level of output and employment.

*Back*

# Table of Contents

- 1 The Roots of Macroeconomics
- 2 Macroeconomics Concerns**
- 3 Government in economy

# Questions

- What is Macroeconomics concerned with?( *2011Mid1 M6;2012Mid1 M8*)
- What is business cycle? (*2012Mid1 M6; 2012 Mid I M9;2010Mid1 M16*)

# Price Level Stability

Figure 2: what has caused the fluctuation in price level?



# Price Level Stability

Figure 3: We all hope economy is going to be like this



# Price Level Stability

Figure 4: But sometimes it may be like this



# Price Level Stability

Figure 5: Then this is going to happen





# Macroeconomics Concerns

2012 Mid I M7 Page 192

Macroeconomics is concerned with

- A price level stability
- B economic growth
- C unemployment.
- D all of these.

*Back*

# Macroeconomics Concerns

2012 Mid I M7 Page 192

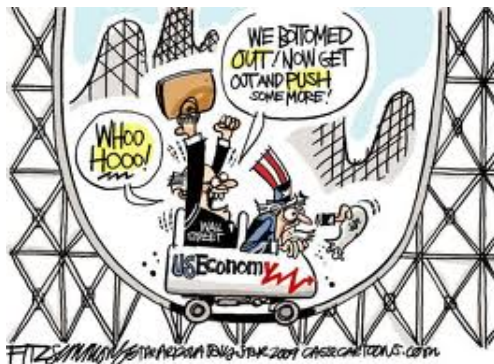
Macroeconomics is concerned with

- A price level stability
- B economic growth
- C unemployment.
- D all of these.

*Back*

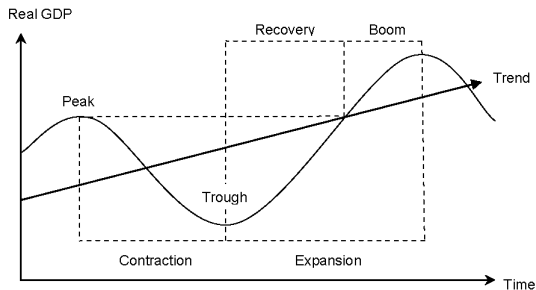
# Business Cycle

Figure 6: US economy in Business Cycle



# Business Cycle

Figure 7: Business Cycle



# Business Cycle

2012 Mid I M6 Page 192

If the economy is in the **expansionary** phase of the business cycle, then

- A the rate of change in economic activity is negative.
- B there is no change in the level of economic activity.
- C the level of economic activity is negative.
- D the rate of change in economic activity is positive.

*Back*

# Business Cycle

2012 Mid I M6 Page 192

If the economy is in the **expansionary** phase of the business cycle, then

- A the rate of change in economic activity is negative.
- B there is no change in the level of economic activity.
- C the level of economic activity is negative.
- D the rate of change in economic activity is positive.

*Back*

# Business Cycle

2012 Mid I M9 Page 192

In a business cycle

- A the period from a trough to a peak is called an expansion.
- B output increases and unemployment decreases in a contraction.
- C output and employment fall during an expansion.
- D the trend growth line is negative sloping.
- E the peak of a new business cycle is lower than the peak of the previous business cycle.

*Back*

# Business Cycle

2012 Mid I M9 Page 192

In a business cycle

- A the period from a trough to a peak is called an expansion.
- B output increases and unemployment decreases in a contraction.
- C output and employment fall during an expansion.
- D the trend growth line is negative sloping.
- E the peak of a new business cycle is lower than the peak of the previous business cycle.

*Back*



# Table of Contents

- 1 The Roots of Macroeconomics
- 2 Macroeconomics Concerns
- 3 Government in economy

# Questions

- What is Fiscal Policy concerned with? (2011Mid1 M9 2010Mid1 M1)
- What is Monetary Policy concerned with?
- What is Supply Side policy? (2011Mid1 M7)
- Can you locate the three markets in Circular Flow Diagram?

# Government Role in Economy

Figure 8: Huge US Government Debt



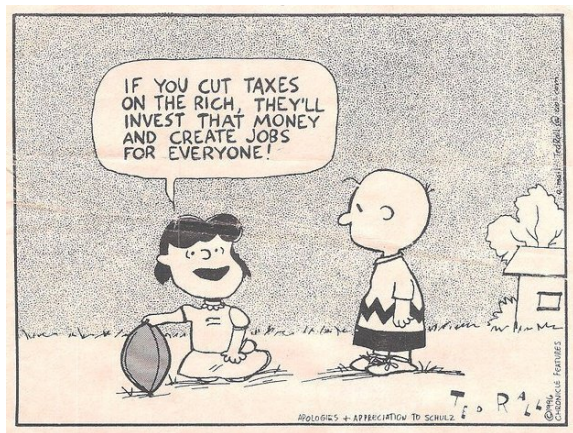
# Monetary Policy

Figure 9: How much money do we need?



# Supply Side Policy

Figure 10: Less Tax; Less Government Spending; Industry Deregulation



## Supply Side Policy

2011Mid 1 M7 Page 204

\_\_\_\_\_ would advocate a policy of government reducing corporate profit taxes to encourage investment.

- A Classical economists
- B Keynesian economists
- C Marxist economists
- D Supply-side economists

*Back*

## Supply Side Policy

2011Mid 1 M7 Page 204

\_\_\_\_\_ would advocate a policy of government reducing corporate profit taxes to encourage investment.

- A Classical economists
- B Keynesian economists
- C Marxist economists
- D Supply-side economists

*Back*

# Fiscal Policy

2011 Mid I M9 Page 204;

Fiscal Polices are concerned with policies regarding \_\_\_\_\_ and

- A income;saving
- B taxes;expenditures
- C revenues;earnings
- D money supply;money demand

*Back*



# Fiscal Policy

2011 Mid I M9 Page 204;

Fiscal Polices are concerned with policies regarding \_\_\_\_\_ and

\_\_\_\_\_

A income;saving

B taxes;expenditures

C revenues;earnings

D money supply;money demand

*Back*

# Circular Flow Diagram

2010Mid1 E1

Where are the goods-services, labor and money markets?

(Note: Transfer Payment refers to redistribution of income which include financial aid, social security, health care etc.)

