# Lecture 1: Course Outline, Introduction to Macro and Graph-Review

ECN 204
Introductory Macroeconomics

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# ECONOMICS

"**Economics** is the social science concerned with the **efficient** use of **scarce resources** to obtain the **maximum satisfaction** of society's **unlimited wants.**"

# MICROECONOMICS (ECN 104)

**"Microeconomics** is the part of economics concerned with such **individual units** as industries, firms, and households."

- Price of a specific product
- Consumption and leisure (work) choice of an individual
- Number of workers employed by a single firm
- Revenue or income of a particular firm or household
- Expenditures of a specific firm, government entity, or family
- Examines the sand, rocks, and shells, not the beach

# MACROECONOMICS (ECN204)

“**Macroeconomics** is the part of economics concerned with the **economy as whole** or its basic subdivisions or aggregates such as the government, household, and the business sector.”

“**Macroeconomics** is the study of the **structure and performance** of **national economies** and of the **policies** that governments use to try to affect economic performance.”

- Aggregation
    1. Aggregation is the process of summing individual economic variables to obtain economy wide totals.
    2. Add the millions of consumers in the Canadian economy and treat them as if they were one huge unit called “consumers”.
    3. Add consumer expenditures on all goods and services to get an overall total called aggregate consumption.

- Total output, Total employment, Total income, Aggregate Expenditures, and the General Price level

- Examines the beach, not the sand, rocks, and shells

# MACROECONOMIC ISSUES

- *What determines a nation's long-run economic growth?*

    -In 1870, income per capita in Norway < Argentina

    -Today, income per capita is more than twice as high in Norway as in Argentina

- *What causes a nation's economic activity to fluctuate?*

    - Great Depression: 1930-1938

    - Canadian Recessions: 1981-82, 1991-92

- *What causes unemployment?*

    -1930s, unemployment rate 25%

    - World War II, unemployment rate less than 2%

- *What causes prices to rise?*

  - Upward trend in 1970s, the inflation rate reached 12% in the early 1980s

  - Less than 4% in the mid-1980s

  - Less than 2% in the early 1990s

  -Germany (July 1922- Dec 1923): price rose by a factor of several billion!

  -What causes inflation, and what can be done about it?

  - The role of monetary policy conducted by the Bank of Canada.

- *How does being part of a global economic system affect nation's economies?*

  - Many claim that economic growth in Canada in the 1990s was boosted by rapid economic growth abroad.

  - Free trade with U.S. and Mexico; East Asian Crisis

  - Exports and Imports as percentages of total Canadian output increased in the 1990s

  - Canadian trade surplus since 1994. Implications?

  - How do economic links between nations, such as international trade and borrowing, affect the performance of individual economies and the world economy as a whole?

- *Can government policies be used to improve a nation's economic performance?*

  - Fiscal Policy (determined at Federal, Provincial and Municipal levels): government spending and taxation

  - Monetary Policy ( Bank of Canda): short-term interest rates and the rate of growth of the nation's money supply

  - Government spending (40% of output) and deficits reached the peak during World War II.

  - Significant deficits during the Great Depression of the 1930s.

  - Recent federal budget deficits of the 1980s and early 1990s occurred during a period of peace and relative prosperity!

  -Crowding out investment in modern equipment?

  -Negative link between the budget deficits and the productivity?

- Some critics claim a close link between the federal budget deficits since the mid-1970s and the decline in productivity growth that occurred during the same period.

- Is this claim true?

- If so, will balancing the federal budget improve prospects for future growth?

- *Macroeconomic Issues and Problems are frequently interconnected*

  - The possible link between the government's budget deficit and productivity growth illustrates the interconnectedness of macroeconomics.

  - Studying one macroeconomic question in isolation, such as the effects of the government budget deficit, generally is not sufficient.

  - Macroeconomists usually study the economy as a complete system, recognizing that changes in one sector or market may affect the behavior of the entire economy.

# Table 1: Recent Economic Performance: Canada, U.S. and Canada

| **Country** | **Aggregates** | **Latest** | **2004 Forecasts** | **2005 Forecast** |
|---|---|---|---|---|
| Canada | GDP growth rate | 1.6 (Q1) | 2.9 | 3.4 |
| U.S. | GDP growth rate | 4.8 (Q2) | 4.5 | 3.5 |
| China | GDP growth rate | 9.6 (Q2) | - | - |
| Canada | Unemployment rate | 7.2 (Jul) | - | - |
| U.S. | Unemployment rate | 5.5 (Jul) | - | - |
| Canada | Inflation rate (Consumer prices) | 2.3 (Jul) | 2.0 | 2.1 |
| U.S. | Inflation rate (Consumer prices) | 3.0 (Jul) | 2.6 | 2.3 |
| Canada | Current Account ($bn) | +20.9 (Q1) | +2.2 (% of GDP) | 1.6 (% of GDP) |
| U.S. | Current Account ($bn) | -537.3 (Q1) | -5.2 (% of GDP) | -4.4 (% of GDP) |
| China | Current Account ($bn) | +45.9 (2003) | | |

**Source: The Economist, August 28- September 3, 2004**

# TEN KEY CONCEPTS

## *The Individual*

## CONCEPT 1: Facing Tradeoffs

-Scarcity vs. unlimited wants

## CONCEPT 2: Opportunity Costs

- The cost of the choice you make is what you give up for it. Example- O.C. of taking ECN 204 is your tuition plus foregone earnings.

## CONCEPT 3: Choosing a Little More or Less

## CONCEPT 4: The Influence of Incentives

- Example - RESP

## *Interaction among Individuals*

CONCEPT 5: Specialization and Trade

CONCEPT 6: The Effectiveness of Markets

CONCEPT 7: The Role of Governments

Example – Imperfect Competition and Externalities

## *The Economy as a Whole and the Standard of Living*

CONCEPT 8: Production and the standard of living

CONCEPT 9: Money and Inflation

CONCEPT 10: Inflation-Unemployment Tradeoff- Philips Curve