

Econ 222D

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- Class Information:
Time: Tuesdays, 1:00pm and Thursdays, 11:30am
Location: Kingston Hall, 101
Midterm: TBA (after reading week)
- textbook: Abel, Berunanke and Smith 'Macroeconomics' (required)
- grading: assignment 20 % (3-4)
midterm 30 %
final 50 %
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The web page has a lot of information on past exams, detailed course outline, and discussion board.
- Discussion Board:
Econ222 has its own discussion board online. If you have a question about the material or course requirements, or something else course-related that you want to discuss, you can do so in a public forum. (Each topic under discussion has a separate link, so we can "compartmentalize" our chats.) Instructors and TAs will help answer questions you might have. If you want to direct a message to a particular person, but still want your remarks to be public, please say so in your posting. You will want to check the board frequently for notices about the course from the instructors.

Remember, this is a public forum, so anything you put on the board is there for all to see. Please be responsible with this resource: inappropriate comments will not be tolerated.

1 Chapter 1: What is Macroeconomics?

1.1 What Macroeconomics Is About?

Macroeconomics Deals with:

- aggregate amount (total consumption, income, investment, unemployment level, ...)
- variations across time (growth, business cycle)
- international links (trade, current account, exchange rate)
- role of government policy (tax transfer, government spending)

Course Goals

- To acquire an understanding of the terminology used in discussing national economic issues.
- To acquire some understanding of economic modeling.
- To appreciate the predictions of models in response to shocks.
- To understand the implications of various policies of the Federal government and the Bank of Canada.
- To understand the implications of the world economy on the Canadian economy.
- To research and understand the empirical structure of the Canadian economy.
- To research current economic trends in Canada.

Output (GDP)

Defined formally in Chapter 2.

Y_t : GDP in year t .

Growth in year $t = \frac{Y_t - Y_{t-1}}{Y_{t-1}}$.

Figure 1.1.

Labor Productivity

N_t : total hours of work by all workers.

$$\text{average labor productivity} = \frac{Y_t}{N_t}.$$

Figure 1.2.

Unemployment

The number of people who are willing to work but cannot find jobs.

Total labor force = working + unemployed

$$\text{unemployment rate} = \frac{\text{unemployed}}{\text{total labor force}}$$

Figure 1.3.

Price Index

Defined in chapter 2. Let P_t be the price index at year t .

$$\text{Inflation rate at year } t = \frac{P_t - P_{t-1}}{P_{t-1}}.$$

Figure 1.4.

Export and Import

Trade surplus (deficit): Figure 1.5.

Exchange rate: Figure 1.6.

Government Spending

Figure 1.7.

Two important policies: **fiscal policy** and **monetary policy**.

1.2 What Macroeconomists Do

- macroeconomic forecasting
conditional or unconditional
- macroeconomic analysis
by international organizations, government and the private sector
- macroeconomic research
theory, history and tests

- data development

1.3 Why Macroeconomists Disagree?

Positive vs Normative

A **positive analysis** of policy is a **description** of a policy. A **normative analysis** of policy is a **desirability** of a policy.

Examples of positive analysis:

- The trade deficit will decline because of the fall in the value of the dollar.
- The inequality of income that exists in Canada is partly caused by an unequal distribution of wealth.

Examples of normative analysis:

- Bank of Canada should raise interest rates to fight inflation.

Often the distinction between ‘what is?’ and ‘what should be?’

eg. The appropriate size of the government: positive questions to the impact of GDP, trade balance, inflation, and so on. Normative questions to the income transfer from urban to rural, growth-inequality trade off, and so on.

Classicals vs Keynesians

The economic theory (see section 1.2) consists of *assumption*, *derivation (mechanism to work)* and *proposition*.

Classicals:

- assumption: price flexibility
- mechanism: price adjustment
- proposition: market equilibrium maximizes the general welfare of everyone in the economy.

Keynesians:

- assumption: price rigidity
- mechanism: quantity adjustment
- proposition: market has an imperfect power to resolve the involuntary unemployment. The government can resolve the disequilibrium through fiscal and monetary policies.

Difference in positive analysis: the government *does (not)* have a role to resolve the disequilibrium in the labor market.

Difference in normative analysis: the government *should (not)* have a discretionary policy to manipulate interest rate.

Numerical Problem 1 (p.24)

/	1997	1998
output	12000 (<i>t</i>)	14300
employment	1000	1100
unemployed	100	50
total labor force	1100	1150
price	2	2.5
average labor productivity	12	13
growth rate in APL	-	8.3 % $(=(13-12)/12)$
unemployment rate		
inflation rate	-	

2 Chapter 2: Measurement and Accounting

2.1 National Income Accounting

1. product approach
2. income approach
3. expenditure approach

Example ...

AppleInc	
wage paid	15000
taxes paid	5000
apples sold to the public	10000
apples sold to JuiceInc	25000
after-tax profit	15000
JuiceInc	
wage paid	10000
taxes paid	2000
apples purchased from AppleInc	25000
juice sold to the public	40000
after-tax profit	3000

- AppleInc's product (a) is divided into wage (b), tax (c) and profit (d). JuiceInc's net product (e) is divided into wage (f), tax (g) and profit (h). → total product=total income
- total income that the public has is divided into the purchase of apple (i) and juice (j). → total income=total expenditure

Hence (2.1): total product=total income=total expenditure.