Introduction to Macroeconomics

Course overview
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- http://www2.hmc.edu/~evans/hmcfre.html
- Parsons 1261
  Tu/Th 1:00 – 2:30 & appt.
- Specialties
  - policy
  - entrepreneurship
  - finance
- Twitter: PITraders
Remember ...

• Reading assignments and exam dates are found at http://www2.hmc.edu/~evans/e53cc.html
• High-quality pdfs of these slides are at http://www2.hmc.edu/~evans/e53ls.htm
• If looking for material for any of my classes, always go back to source http://www2.hmc.edu/~evans/hmccgre.html
• I don’t use Sakai for this class
Macroeconomics
(review outline and calendar)

1. Reading and reviewing
   - no texts, all online
   - all slides posted online prior to the lecture, 1-slide and 2-slide pp

2. Exams and grades
   - 3 exams, equally weighted, new material only
   - grades on generous distribution
   - no homework

3. Policy
   - attendance not required, but this is a lecture course
   - no videos or recordings without permission
   - P/NC etc. review the rules!
Typical macroeconomic questions:

- What caused the recent recession?
- What causes inflation or deflation?
- What determines interest rates?
- Why do exchange rates fluctuate?
- What causes unemployment?
- What is our government and Federal Reserve System doing?
Don’t Worry Be Happy (DWBH)

Now sit back and relax and listen – don’t take notes. The next few slides are from the 2013 lectures, and they are not current. You will see them again as the semester proceeds, but up to date!

This is meant to be a teaser – a little overview of where we will be going.
How do the components compare?

Average: 3.10%

2012 Q1-Q3: 2.0%, 1.3%, 3.1%

Below 0.0% for 2 consecutive quarters is a recession.

Source: Bureau of Economic Analysis, National Income and Product Accounts
CPI Inflation Rate: 1960-2012

Average: 4%

Acceptable level (about 2.5%)

Double-digit hyperinflation

Green line: BC troughs

CPI for urban consumers, U.S. city average, all items, NSA. Source: Bureau of Labor Statistics
Unemployment Rate
1960-2012, annual, % of civilian workforce

Mean: 6.09%

Red represents the trough of business cycles. In recent cycles, unemployment lags the cycle by a few months.
Shown here is the ¥ price of the $, interpreted as “one $ costs 93 ¥” and written as $/¥. This convention is inverted from the manner in which the £ and € are conventionally quoted.

This was 238 in 1985.

This value falling (when $ is in the numerator) is regarded as a “depreciating” or “weaker” dollar. Imported goods from Japan cost more and our exports to Japan cost less.
U.S. Government Budget Surpluses and Deficits
1969 - 2012

$ Billions

Source: Budget of the United States Government, Fiscal Year 2014, Historical Tables, Table 1.1
Excess Reserves of Depository Institutions
(monthly, billions $, 1959 – March 2013)

QE1, QE2 and QE3 have "monetized" the budget deficit.

The celebrated Greenspan salvation ...
saving us from catastrophe after the 2000 crash and 9/11.

The old scale: 20

Source: Board of Governors of the Federal Reserve Bank, H.3 Statistical Release
Topical Issues
early 2014

• What will be the effect of tapering QE3?
• What will interest rates do in 2014?
• Will deflation actually become a problem?
• Will the recession return?
• Is the budget deficit going to shrink (enough)?
• What is the long-run cost of current govt. policy?
• What is the future of Social Security and Medicare?
• What are the global dimensions of this – is Europe or emerging nations going to fall and drag us down?
• Will there be an exchange-rate war this year?