

PART I	Introduction and Measurement Issues 19
Chapter 1	Introduction 20
	What Is Macroeconomics? 20
	Gross Domestic Product, Economic Growth,
	and Business Cycles 21
	Macroeconomic Models 25
	Microeconomic Principles 28
	Disagreement in Macroeconomics 29
	What Do We Learn from Macroeconomic Analysis? 30
	Understanding Recent and Current Macroeconomic Events 33
	Chapter Summary 51 Problems 53
	Key Terms 51 Working with the Data 54
	Questions for Review 52
Chapter 2	Measurement 55
	Measuring GDP: The National Income and Product Accounts 55
	Nominal and Real GDP and Price Indices 64
	MACROECONOMICS IN ACTION: Comparing Real GDP Across
	Countries and the Penn Effect 72
	MACROECONOMICS IN ACTION: House Prices and GDP
	Measurement 73
	Savings, Wealth, and Capital 75
	Labor Market Measurement 76
	MACROECONOMICS IN ACTION: Alternative Measures of the
	Unemployment Rate 78
	Chapter Summary 80 Problems 82
	Key Terms 80 Working with the Data 85 Questions for Review 82
Chapter 3	Business Cycle Measurement 86
	Regularities in GDP Fluctuations 86

	Comovement 90 The Components of GDP 96 Nominal Variables 99 Labor Market Variables 102 MACROECONOMICS IN ACTION: Jobless Recoveries 104 Seasonal Adjustment 106 MACROECONOMICS IN ACTION: The Great Moderation and the 2008–2009 Recession 107
	Comovement Summary 109 Chapter Summary 110 Problems 112 Key Terms 110 Working with the Data 112 Questions for Review 111
PART II	A One-Period Model of the Macroeconomy 113
Chapter 4	Consumer and Firm Behavior: The Work–Leisure Decision and Profit Maximization 114 The Representative Consumer 115 The Representative Firm 134 MACROECONOMICS IN ACTION: How Elastic is Labor Supply? 135 MACROECONOMICS IN ACTION: Henry Ford and Total Factor Productivity 145 THEORY CONFRONTS THE DATA: Total Factor Productivity and the U.S. Aggregate Production Function 146 Chapter Summary 149 Problems 152 Key Terms 150 Working with the Data 154 Questions for Review 151
Chapter 5	A Closed-Economy One-Period Macroeconomic Model 155 Government 156 Competitive Equilibrium 156 Optimality 163 Working with the Model: The Effects of a Change in Government Purchases 169 THEORY CONFRONTS THE DATA: Government Spending in World War II 171 Working with the Model: A Change in Total Factor Productivity 172

MACROECONOMICS IN ACTION: Economic Forecasting and the

Financial Crisis 89

Contents 5

THEORY CONFRONTS THE DATA: Total Factor Productivity, Real GDP, and Energy Prices 177 MACROECONOMICS IN ACTION: Government Expenditures and the American Recovery and Reinvestment Act of 2009 180 A Distorting Tax on Wage Income, Tax Rate Changes, and the Laffer Curve 184 A Model of Public Goods: How Large Should the Government Be? 191 Chapter Summary 195 Problems 197 Key Terms 195 Working with the Data 199 Questions for Review 196 Search and Unemployment 200 Labor Market Facts 201 MACROECONOMICS IN ACTION: Unemployment and Employment in the United States and Europe 205 A Diamond-Mortensen-Pissarides Model of Search and Unemployment 207 Working with the DMP Model 217 MACROECONOMICS IN ACTION: Unemployment Insurance and Incentives 219 THEORY CONFRONTS THE DATA: Productivity, Unemployment, and Real GDP in the United States and Canada: The 2008–2009 Recession 225 A Keynesian DMP Model 227 MACROECONOMICS IN ACTION: The Natural Rate of Unemployment and the 2008–2009 Recession 231 Chapter Summary 232 Problems 234 Key Terms 233 Working with the Data 235 Questions for Review 233 Economic Growth 237 Economic Growth: Malthus and Solow 238 Economic Growth Facts 239 The Malthusian Model of Economic Growth 244 The Solow Model: Exogenous Growth 255 THEORY CONFRONTS THE DATA: The Solow Growth Model, Investment Rates, and Population Growth MACROECONOMICS IN ACTION: Resource Misallocation and Total

Chapter 6

PART III

Chapter 7

Factor Productivity 270

	Growth in the United States 271 Growth Accounting 272 MACROECONOMICS IN ACTION: Development Accounting 279 Chapter Summary 281 Problems 283 Key Terms 282 Working with the Data 285 Questions for Review 282
Chapter 8	Income Disparity Among Countries and Endogenous Growth 286
	Convergence 287 THEORY CONFRONTS THE DATA: Is Income Per Worker Converging in the World? 292 MACROECONOMICS IN ACTION: Measuring Economic Welfare: Per Capita Income, Income Distribution, Leisure,
	and Longevity 293 Endogenous Growth: A Model of Human Capital
	Accumulation 294
	MACROECONOMICS IN ACTION: Education and Growth 303
	Chapter Summary 305 Problems 306 Key Terms 305 Working with the Data 307 Questions For Review 305
PART IV	Savings, Investment, and Government Deficits 30
Chapter 9	A Two-Period Model: The Consumption–Savings Decision and Credit Markets 310
	A Two-Period Model of the Economy 311 THEORY CONFRONTS THE DATA: Consumption Smoothing and the
	Stock Market 327
	Stock Market 327 The Ricardian Equivalence Theorem 339 MACROECONOMICS IN ACTION: The Economic Growth and Tax Relief Reconciliation Act and National Saving 349
	Stock Market 327 The Ricardian Equivalence Theorem 339 MACROECONOMICS IN ACTION: The Economic Growth and Tax
Chapter 10	Stock Market 327 The Ricardian Equivalence Theorem 339 MACROECONOMICS IN ACTION: The Economic Growth and Tax Relief Reconciliation Act and National Saving 349 THEORY CONFRONTS THE DATA: Government Financing Arithmetic: Are Government Budget Deficits Sustainable? 351 Chapter Summary 354 Problems 357 Key Terms 355 Working with the Data 359
Chapter 10	Stock Market 327 The Ricardian Equivalence Theorem 339 MACROECONOMICS IN ACTION: The Economic Growth and Tax Relief Reconciliation Act and National Saving 349 THEORY CONFRONTS THE DATA: Government Financing Arithmetic: Are Government Budget Deficits Sustainable? 351 Chapter Summary 354 Problems 357 Key Terms 355 Working with the Data 359 Questions for Review 356 Credit Market Imperfections: Credit Frictions,

MACROECONOMICS IN ACTION: Recent Trends in Economic

Contents 7

	Credit Market Imperfections, Asymmetric Information, and the
	Financial Crisis 365
	THEORY CONFRONTS THE DATA: Asymmetric Information and Interest Rate Spreads 367
	•
	Credit Market Imperfections, Limited Commitment, and the Financial Crisis 369
	THEORY CONFRONTS THE DATA: The Housing Market, Collateral,
	and Consumption 372
	THEORY CONFRONTS THE DATA: Low Real Interest Rates and the
	Financial Crisis 379
	Social Security Programs 381
	MACROECONOMICS IN ACTION: Transitions from Pay-As-You-Go
	to Fully Funded Social Security 387
	Chapter Summary 388 Problems 390
	Key Terms 389 Working with the Data 392
	Questions for Review 389
11	A Real Intertemporal Model with Investment 393
	The Representative Consumer 394
	The Representative Firm 400
	THEORY CONFRONTS THE DATA: Investment and the Interest Rate
	Spread 412
	Government 414
	Competitive Equilibrium 415
	The Equilibrium Effects of a Temporary Increase in G: Stimulus, the
	Multiplier, and Crowding Out 426
	MACROECONOMICS IN ACTION: The Total Government Spending
	Multiplier: Barro vs. Romer 430
	The Equilibrium Effects of a Decrease in the Current Capital
	Stock K 432
	The Equilibrium Effects of an Increase in Current Total Factor
	Productivity <i>z</i> 433
	The Equilibrium Effects of an Increase in Future Total Factor
	Productivity, z' : News About the Future and Aggregate
	Economic Activity 436
	THEORY CONFRONTS THE DATA: News, the Stock Market, and
	Investment Expenditures 437
	Credit Market Frictions and the Financial Crisis 439
	THEORY CONFRONTS THE DATA: Interest Rate Spreads and

Aggregate Economic Activity 441

Sectoral Shocks and Labor Market Mismatch 443

Chapter

	THEORY CONFRONTS THE DATA: The Behavior of Real GDP, Employment, and Labor Productivity in the 1981–1982 and 2008–2009 Recessions 446
	Chapter Summary 449 Problems 451 Key Terms 450 Working with the Data 453 Questions for Review 450
PART V	Money and Business Cycles 455
Chapter 12	Money, Banking, Prices, and Monetary Policy 456 What Is Money? 457 A Monetary Intertemporal Model 458 A Level Increase in the Money Supply and Monetary Neutrality 472 Shifts in Money Demand 475 THEORY CONFRONTS THE DATA: Instability in the Money Demand Function 478 The Short-Run Non-Neutrality of Money: Friedman–Lucas Money Surprise Model 480 The Zero Lower Bound and Quantitative Easing 490 MACROECONOMICS IN ACTION: Empirical Evidence on
Chapter 13	Quantitative Easing 493 Chapter Summary 496 Problems 499 Key Terms 497 Working with the Data 500 Questions for Review 498 Business Cycle Models with Flexible Prices and
	Wages 501 The Real Business Cycle Model 503 A Keynesian Coordination Failure Model 511 MACROECONOMICS IN ACTION: Business Cycle Models and the Great Depression 512 A New Monetarist Model: Financial Crises and Deficient Liquidity 522 MACROECONOMICS IN ACTION: Uncertainty and Business Cycles 532 Chapter Summary 533 Problems 535
	Key Terms 534 Working with the Data 536 Questions for Review 534
Chapter 14	New Keynesian Economics: Sticky Prices 537
	The New Keynesian Model 539 The Nonneutrality of Money in the New Keynesian Model 541

Contents 9

THEORY CONFRONTS THE DATA: Can the New Keynesian Model Under Fluctuations in the Interest Rate Target Explain Business Cycles? 543 THEORY CONFRONTS THE DATA: Keynesian Aggregate Demand Shocks as Causes of Business Cycles 544 The Role of Government Policy in the New Keynesian Model 546 Total Factor Productivity Shocks in the New Keynesian Model 549 MACROECONOMICS IN ACTION: The Timing of the Effects of Fiscal and Monetary Policy 550 The Liquidity Trap and Sticky Prices 553 MACROECONOMICS IN ACTION: New Keynesian Models, the Zero Lower Bound, and Quantitative Easing 555 Criticisms of Keynesian Models 557 MACROECONOMICS IN ACTION: How Sticky Are Nominal Prices? 558 Chapter Summary 559 Problems 561 Key Terms 560 Working with the Data 562 Questions for Review 560 **International Macroeconomics** International Trade in Goods and Assets 564 A Two-Period Small Open-Economy Model: The Current Account 565 THEORY CONFRONTS THE DATA: Is a Current Account Deficit a Bad Thing? 569 Production, Investment, and the Current Account 573 MACROECONOMICS IN ACTION: The World "Savings Glut" 580 Problems 583 Chapter Summary 581 Working with the Data 584 Key Terms 582 Questions for Review 582 Money in the Open Economy 585 The Nominal Exchange Rate, the Real Exchange Rate, and Purchasing Power Parity 586 THEORY CONFRONTS THE DATA: The PPP Relationship for the United states and Canada 588 Flexible and Fixed Exchange Rates 588

A Monetary Small Open-Economy Model with a Flexible Exchange

PART VI

Chapter 15

Chapter 16

Rate 591

THEORY CONFRONTS THE DATA: Why Did the U.S. Currency Appreciate After the Onset of the Financial Crisis? 598

A Monetary Small Open Economy with a Fixed Exchange Rate 599

MACROECONOMICS IN ACTION: Sovereign Debt and the EMU 608

Capital Controls 610

MACROECONOMICS IN ACTION: Do Capital Controls Work in Practice? 614

A New Keynesian Sticky Price Open-Economy Model 615 Chapter Summary 620 Problems 623

Chapter Summary 620 Problems 623

Key Terms 621 Working with the Data 624

Questions for Review 622

PART VII Money, Banking, and Inflation 625

Chapter 17 Money, Inflation, and Banking 626

Alternative Forms of Money 627

MACROECONOMICS IN ACTION: Commodity Money and Commodity-Backed Paper Money Yap Stones and Playing Cards 629

Money and the Absence of Double Coincidence of Wants: The Role of Commodity Money and Fiat Money 630

Long-Run Inflation in the Monetary Intertemporal Model 634 MACROECONOMICS IN ACTION: Should the Fed Reduce the

Inflation Rate to Zero or Less? 643

Financial Intermediation and Banking 644

MACROECONOMICS IN ACTION: Banks, Non-Bank Financial Intermediaries, Too-Big-to-Fail, and Moral Hazard 655

MACROECONOMICS IN ACTION: Bank Failures and Banking Panics

in the United States and Canada 658

Chapter Summary 660 Problems 662

Key Terms 660 Working with the Data 663

Questions for Review 661

Chapter 18 Inflation, the Phillips Curve, and Central Bank Commitment 664

The Phillips Curve 665
The Phillips Curve, Inflation Forecasting, and the Fed's Dual
Mandate 674

MACROECONOMICS IN ACTION: Commitment and Post Financial

Crisis Monetary Policy in the United States 676

Chapter Summary 677

Problems 678

Key Terms 678

Working with the Data 679

Questions for Review 678

Appendix Mathematical Appendix 680

Chapter 4: Consumer and Firm Behavior 680

Chapter 5: A Closed-Economy One-Period

Macroeconomic Model 684

Chapter 6: Search and Unemployment 687

Chapters 7 and 8: Economic Growth 690

Chapter 9: A Two-Period Model 695

Chapter 11: A Real Intertemporal Model with Investment 698

Chapter 12: Money, Banking, Prices, and Monetary Policy 700

Chapter 17: Money, Inflation, and Banking 705

Chapter 18: Inflation, the Phillips Curve, and Central Bank

Commitment 709

Index 711