Contents

List of Figures *xi*List of Tables *xvi*List of Boxes *xviii*

PART I Introduction to Macroeconomics 1

1 What is Macroeconomics? 3

- 1.1 Overview 4
- 1.2 Macroeconomics as a Discipline 10
- 1.3 The Methodology of Macroeconomics 14
- 1.4 Preview of the Book 17

2 Macroeconomic Accounts 21

- 2.1 Overview 22
- 2.2 Gross Domestic Product 22
- 2.3 Flows of Incomes and Expenditures 30
- **2.4** Balance of Payments *36* Summary *40*

PART II The Real Macroeconomy 43

3 Economic Growth 45

- **3.1 Overview** 45
- 3.2 Stylized Facts and Steady States 47

- 3.3 Capital Accumulation 49
- 3.4 Population Growth 58

一个一个

- 3.5 Technological Progress 61
- **3.6** Putting It All Together: Growth Accounting 62
- **3.7 Endogenous Growth: A Primer** *65* **Summary** *67*

4 Labour Markets and Unemployment 71

- **4.1** Overview 72
- 4.2 Demand and Supply in the Labour Market 73
- **4.3** A Static Interpretation of Unemployment 82
- **4.4** A Dynamic Interpretation of Unemployment *90*
- **4.5** The Equilibrium Rate of Unemployment *94*Summary *97*

5 Borrowing, Lending, and Budget Constraints 101

- **5.1** Overview 102
- 5.2 Thinking about the Future 103
- **5.3** The Household's Intertemporal Budget Constraint *104*
- 5.4 The Firm and the Private Sector's Intertemporal Budget Constraint 108

- 5.5 Public and Private Budget Constraints 113
- 5.6 The Current Account and the Budget Constraint of the Nation 120 Summary 122

6 Private Sector Demand: **Consumption and Investment** 125

- **6.1 Overview** 126
- **6.2 Consumption** 127
- 6.3 Investment 138 Summary 148

7 The Real Exchange Rate 151

- **7.1** Overview 152
- 7.2 The Real Exchange Rate and the Primary Current Account Function 153
- 7.3 The Real Exchange Rate as the Relative Price of Non-traded Goods 156
- 7.4 The National Intertemporal Budget Constraint and the Equilibrium Real Exchange Rate 161 Summary 168

文章 第二 PART III Money 171

8 Money and the Demand for Money 173

- 8.1 Overview 174
- 8.2 Technical Definitions of Money 174
- 8.3 Why Is this Money? 177
- **8.4** Money: A Balance Sheet Approach 179
- 8.5 The Demand for Money 181
- 8.6 Equilibrium in the Money Market: The Short Run 186
- 8.7 Equilibrium in the Money Market: The Long Run 188 Summary 194

9 The Supply of Money and **Monetary Policy** 199

- **9.1** Overview 200
- 9.2 Objectives, Targets, and Instruments 201
- 9.3 Money Creation 203
- 9.4 Controlling Monetary Conditions 209
- 9.5 Monetary Policy in an Open Economy 216
- 9.6 Monetary Financing of the Government: A Slippery Objective 217
- 9.7 Bank Regulation and Monetary Control 220 Summary 223

PART IV Macroeconomic Equilibrium 227

10 Aggregate Demand, Output, and the Interest Rate 229

- **10.1** Overview 230
- 10.2 Aggregate Demand and the Goods Market 232
- **10.3** The Goods Market and the *IS* Curve 237
- 10.4 The Money Market and the LM Curve 241
- 10.5 International Capital Flows and Macroeconomic Equilibrium 243
- 10.6 Output and Interest Rate Determination under Fixed Exchange Rates 246
- 10.7 Output and Interest Rate Determination under Flexible Exchange Rates 252
- 10.8 Fixed and Flexible Rates: A Wrap-Up 255 Summary 256

11 Output, Employment and Prices 261

- **11.1 Overview** *262*
- 11.2 The IS-LM Model 263
- 11.3 General Equilibrium 264

- 11.4 General Equilibrium with Flexible Prices: The Neoclassical Case 268
- 11.5 General Equilibrium with Sticky Prices: The Keynesian Case 272 Summary 276

PART V Inflation and Business Cycles 279

12 Aggregate Supply and Inflation 281

- 12.1 Overview 282
- **12.2** The Phillips Curve: Chimera or a Stylized Fact? 283
- **12.3** Accounting for Inflation: The Battle of the Mark-ups 288
- **12.4** Inflation, Unemployment, and Output *294* Summary *299*

13 Aggregate Demand and Aggregate Supply 303

- 13.1 Overview 304
- **13.2** Aggregate Demand and Supply under Fixed Exchange Rates *305*
- **13.3** Aggregate Demand and Supply under Flexible Exchange Rates *315*
- **13.4** How to Use the *AS-AD* Framework *319* Summary *327*

14 Business Cycles 331

- **14.1 Overview** *332*
- **14.2 Stylized Facts about Business Cycles** *333*
- 14.3 Deterministic and Stochastic
 Interpretations of the Business Cycle 341
- **14.4 Sticky Price Business Cycles** *346*
- 14.5 Real Business Cycles 349
- 14.6 Taking Stock of the Two Theories 352
 Summary 355

PART VI Macroeconomic Policy 359

15 Fiscal Policy, Debt, and Seigniorage 361

- **15.1** Overview 362
- 15.2 Fiscal Policy and Economic Welfare 363

- 15.3 Macroeconomic Stabilization 365
- **15.4** Deficit Financing: Public Debt and Seigniorage *373*
- 15.5 Three Ways to Stabilize the Public Debt 376

 Summary 379

16 The Limits of Demand Management 383

- 16.1 Overview 384
- 16.2 Policy Activism and Demand Management: What are the Issues? 385
- 16.3 Macroeconomic Policy and Expectations 393
- 16.4 The Institutions of Policy-Making 394
- **16.5** Politics and Economics *402* Summary *404*

17 Supply-Side Policy 407

- 17.1 Overview 408
- **17.2** Market Efficiency and Equilibrium Output 409
- **17.3** Improving the Effectiveness of Goods Markets *414*
- 17.4 Improving the Efficiency of Labour Markets 420Summary 432

18 Economic Growth: Theory and Policy *435*

- **18.1 Overview** *436*
- 18.2 Growth and Complementary Inputs 437

- 18.3 Growth, Knowledge, and Innovation 441
- **18.4** Growth and the Economic Environment *446*
- **18.5** Growth and Politics *452* Summary *454*

PART VII Asset Markets and International Financial Architecture 457

19 Asset Markets and Macroeconomics 459

- **19.1** Overview 460
- 19.2 How Asset Markets Work 460
- 19.3 Linking Asset Markets and Macroeconomics 470
- **19.4** Exchange Rate Determination in the Short Run *479*Summary *486*

20 The Architecture of the International Monetary System 491

- **20.1** Overview 492
- 20.2 History of Monetary Arrangements 493
- 20.3 The International Monetary Fund 504
- 20.4 Currency Crises 506
- 20.5 The Choice of an Exchange Rate Regime 514Summary 521

21 Epilogue 525

- 21.1 The Keynesian Revolution 526
- 21.2 The Monetarist Revolution 528
- 21.3 The Rational Expectations Revolution 531
- 21.4 Microfoundations of Macroeconomics 532
- 21.5 Institutional and Political Economics 533
- 21.6 Labour Markets 534
- 21.7 Growth and Development 536
- 21.8 Conclusions 537

References 539 Glossary 541