Contents

Acknowledgments — VII
About the Author —— IX
Preface — XI
Chapter 1 Introduction to Global Macroeconomics — 1 The Basics — 1 Three Major Macroeconomic Markets — 3 Business Uses of Macroeconomic Analyses — 5 Macroeconomic Analysis for Economists and Policymakers — 1 Let's Begin! — 8 The Rest of the Story — 8 Four Major Business Planning Documents — 8 Conclusion — 10 Key Points — 11 Review Questions — 11 Discussion Questions — 12
Chapter 2 Taking an Economic Pulse — 13 The Basics — 13 Nominal Gross Domestic Product — 13 Shortcomings of GDP as a Measure of Economic Health — 16 Circular Flow Diagram — 17 Macroeconomic Equilibrium — 25 The Rest of the Story — 27 A Second Way to View Macroeconomic Equilibrium — 27 Using the Circular Flow to Explain Recessions — 29 How Do Governments Actually Calculate GDP and GDI? — 31 Gross National Product — 34 Underground Economies — 36 Conclusion — 38 Key Points — 38 Review Questions — 39 Discussion Questions — 41

```
Chapter 3
Labor Market Conditions -- 43
The Basics —— 44
    Who Uses Labor Market Information? —— 44
    Measuring Employment and Unemployment — 46
    Four Types of Unemployment — 51
    Strengths and Weaknesses of Labor Market Measures — 55
    Final Comments on Interpreting Unemployment Rate and
       Employment-to-Population Ratio --- 59
The Rest of the Story —— 60
    Other Labor Market Measures --- 60
    If Only I Could Be a Fly on the Wall --- 63
    Natural Rate of Unemployment --- 65
    Outsourcing, Offshoring, and Reshoring — 66
    Conclusion — 71
    Key Points --- 72
    Review Questions — 74
    Discussion Questions --- 74
 Chapter 4
 Inflation and Real GDP --- 77
 The Basics --- 77
    What Is Inflation? — 77
    Inflation Measures — 79
    What Is Price Stability? --- 82
     Real Versus Nominal GDP —— 83
 The Rest of the Story — 85
     Weaknesses of the CPI --- 85
     Conclusion --- 88
     Key Points --- 89
     Review Questions — 90
     Discussion Question --- 90
 Chapter 5
 Inflation: Who Wins, and Who Loses? --- 91
 The Basics — 91
     Inflation Diminishes Purchasing Power --- 91
     Framing the Inflation Issue — 92
```

```
Debtors Versus Creditors --- 94
    Businesses Versus Workers — 99
    Governments Versus Taxpayers — 100
    Does Inflation Hurt Retirees? — 101
    Does Inflation Hurt the Nation as a Whole? — 102
The Rest of the Story —— 104
    Indexation —— 104
   How to Profit from a Negative Real Interest Rate — 106
   Calculating Nominal Interest Rates with the Precise Formula — 107
   Estimating Market Expectations about Future Inflation —— 108
   Inflation and the Cost of Higher Education —— 110
   Conclusion — 111
   Key Terms —— 111
   Review Questions --- 112
   Discussion Questions — 113
Chapter 6
Monetary Aggregates --- 115
The Basics — 115
   Commodity Money Versus Fiat Money —— 115
   Functions of Money —— 117
   Why Do Nations Measure Their Money Supplies? — 118
  Monetary Aggregates —— 120
The Rest of the Story —— 126
   U.S. Monetary Aggregates —— 126
   Financial Assets Included in the U.S. M1 and M2 Money Supplies --- 128
   Conclusion —— 131
   Key Points —— 131
   Review Questions — 132
   Discussion Questions — 133
Chapter 7
Financial Intermediation — 135
The Basics —— 135
   Financial Intermediaries —— 135
   Overview of a Typical Bank's Balance Sheet — 139
   Check Clearing —— 146
The Rest of the Story —— 149
   Financial Disintermediation — 149
   International Check Clearing - 152
```

```
Check Clearing and Company Cash Management —— 153
   Causes of Bank Failures — 155
   Conclusion --- 157
   Key Points --- 158
   Review Questions — 159
   Discussion Questions -- 160
Chapter 8
Money Creation — 161
The Basics —— 161
    Creation of Money by a Single Bank — 161
    Money Creation by the Banking System —— 171
The Rest of the Story --- 178
    Preferred Asset Ratios and the M1 and M2 Money Multipliers —— 178
    Conclusion — 187
    Key Points --- 187
    Review Questions --- 188
    Discussion Questions --- 191
Chapter 9
Central Banks --- 193
The Basics —— 193
    Financial Regulation Versus Monetary Policy — 193
    M2 ≡ M2 Money Multiplier × Monetary Base — 194
     Guideline #1: Above the Line/Below the Line —— 195
     Monetary Tools of the Central Bank --- 199
     Monetary Tools in Action — 213
     Lags in Monetary Policy -- 214
     Summary of "The Basics" — 215
 The Rest of the Story - 216
     Central Banking: A Balance Sheet View —— 216
     Can a Central Bank Become Insolvent? —— 222
     Macroprudential Regulations - 223
     Monetary Policy Targets —— 224
     Monetary Effects of Central Bank Foreign Exchange Market
        Intervention --- 230
     Central Banks Around the World --- 234
     Conclusion —— 237
     Key Points --- 238
```

```
Review Questions —— 240
    Discussion Questions -- 241
Chapter 10
Real Credit Markets —— 243
The Basics — 243
    Clarifying Financial Markets — 243
    Inverse Relationship Between Debt Prices and Interest Yield —— 245
    Cost of Real Credit --- 245
   Determining Credit's Real Cost and Quantity Per Period --- 251
    Shifts in the Supply and Demand for Real Credit — 257
   Real Credit Market Examples — 266
The Rest of the Story —— 273
   Can Central Banks Set Interest Rates? — 273
   Conclusion — 275
   Key Points -- 276
   Review Questions --- 278
   Discussion Questions — 279
Chapter 11
The Economics of Cryptocurrencies — 281
The Basics -- 281
   Legal Tender, Fiat, Digital, and Cryptocurrencies — 281
   Buying, Selling, and Using Cryptocurrencies — 283
   Blockchain, Altcoins, and Enterprise Distributed Ledger
   Technology — 286
   Cryptocurrency Exchange Rate Determination — 288
   Cryptocurrencies and Monetary Policies --- 291
   Taxation and Government Regulation — 293
   Are Cryptocurrencies "Money"? — 294
   National and Central Bank Digital Currencies — 299
   The Future of Cryptocurrencies —— 302
The Rest of the Story — 304
   Bitcoin — 304
   Conclusion — 307
   Key Points — 309
   Review Questions -- 310
   Discussion Questions --- 310
```

```
Chapter 12
Real Goods and Services Markets — 313
The Basics --- 313
    Aggregate Supply Curve —— 313
    Aggregate Demand Curve — 322
    Macroeconomic Equilibrium — 328
    Don't Confuse Price Level Increases with Increasing Inflation —— 330
    Spending Multiplier — 331
    Applications — 336
The Rest of the Story --- 340
    Demand Pull, Cost Push, and Spiral Inflation —— 340
    Short-Run Phillips Curve — 344
    Hyperinflation and Deflation --- 346
    Actual Quantity Supplied Always Equals Actual Quantity
       Demanded --- 350
    Why Does a Nation's Aggregate Demand Slope Downward? —— 352
    Conclusion --- 356
    Key Points --- 358
     Review Questions - 359
     Discussion Questions — 361
 Chapter 13
 Fiscal Policy --- 363
 The Basics — 364
     What Is Fiscal Policy? —— 364
     Taxes and Other Sources of Government Revenues — 365
     Government Deficits, Surpluses, and Debts --- 366
     The Fiscal Multiplier, Crowding-Out, and Crowding-In —— 373
     Government Surpluses — 377
     Automatic Stabilizers --- 378
      Fiscal Policy in Action --- 380
      Lags in Fiscal Policy --- 381
      Monetary Effects of Fiscal Policy - 382
  The Rest of the Story --- 384
      Putting Government Debt into Perspective — 384
      A Closer Look at Monetary Effects of Fiscal Policy — 387
      Greece: Consequences of a Misestimated Fiscal Multiplier --- 391
      Structural Versus Cyclical Deficits and Surpluses — 392
      Crowding-Out: When Is It Complete, Nonexistent, or Partial? — 400
      Conclusion —— 403
```

```
Key Points — 404
    Review Questions — 405
    Discussion Questions — 406
Chapter 14
Business Cycles — 409
The Basics — 409
   What Are Business Cycles? — 409
   How Are Business Cycles Measured? —— 409
   What Causes Business Cycles? — 411
The Rest of the Story —— 415
   U.S. Business Cycles —— 415
   U.S. Business Cycles from 1947 to 2019 —— 417
   Conclusion —— 422
   Key Points — 423
    Review Questions —— 423
   Discussion Question — 424
Chapter 15
Foreign Exchange Basics — 425
The Basics — 425
   Exchange Rates — 425
   The Foreign Exchange Market —— 427
   Participants in the Foreign Exchange Market — 432
   Checking Accounts Never Leave the Country — 436
   Spot Foreign Exchange Market — 438
The Rest of the Story - 439
   Understanding Spot Foreign Exchange Quotations — 439
   Buying and Selling Foreign Exchange: Bid and Ask Rates — 440
   The Major Segments of the Foreign Exchange Market — 444
   Conclusion — 446
   Key Points — 447
   Review Questions ---- 448
   Discussion Question — 449
Chapter 16
Foreign Exchange Markets — 451
The Basics -- 451
   Measuring a Currency's Value — 451
   Bilateral Versus Effective Exchange Rates — 452
```

```
Nominal Versus Real Exchange Rates — 453
   How Are Exchange Rates Determined? --- 461
   What Causes Exchange Rates to Change? —— 471
The Rest of the Story —— 482
   International Exchange Rate Systems — 482
   To Fix or Not to Fix, That is the Question — 486
   What Is the European Monetary Union? --- 489
   Should There Be One Global Currency? — 490
    Conclusion - 492
    Key Points --- 493
    Review Questions — 495
    Discussion Questions --- 496
Chapter 17
Balance of Payments — 499
The Basics —— 499
    What Is the Balance of Payments? — 499
    Major Parts of the Balance of Payments ---- 500
    Balance of Payments Identity —— 510
    Net Export Identity --- 511
 The Rest of the Story ---- 517
    Balance of Payments Measures --- 517
    Are Current Account Deficits Harmful or Beneficial? — 521
     Frequently Asked Questions about the Balance of Payments — 524
     The Balance of Payments and Double-Entry Bookkeeping --- 525
     Understanding IMF Balance of Payments Reports ---- 528
     Conclusion --- 535
     Key Points --- 536
     Review Questions --- 537
     Discussion Questions --- 542
 Chapter 18
 Putting It All Together ---- 543
  The Basics —— 543
     The Three-Sector Model and Common Sense --- 543
     Integrating Macroeconomic Markets — 545
      Conclusion ---- 559
      Key Points --- 560
      Review Questions — 561
```

Chapter 19
Shocks to Nations with Flexible Exchange Rates — 563
The Basics — 563
Effects of Expansionary Fiscal Policy —— 563
Effects of Expansionary Monetary Policy —— 585
The Rest of the Story —— 598
Feedback Effects in the Three-Sector Model —— 598
A Second Look at Expansionary Fiscal Policy with Low Mobility
International Capital Markets — 602
Conclusion —— 603
Key Points —— 604
Review Questions —— 605
Discussion Questions —— 611
Chapter 20
Shocks to Nations with Fixed Exchange Rates —— 615
The Basics — 615
Why Do Nations Choose Fixed Exchange Rates? — 615
How Do Nations Fix Their Exchange Rates? —— 617
Effects of Expansionary Fiscal Policy —— 623
Effects of Expansionary Monetary Policy —— 639
The Rest of the Story — 647
Balance of Payments Accounting and Central Bank Intervention — 647
Conclusion —— 652 Key Points —— 653
Review Questions — 653
Discussion Questions —— 657
Chapter 21
Causes, Cures, and Consequences of the Great Recession —— 659
The Basics —— 661
Measures of Economic Devastation —— 661
U.S. Housing Market and the Great Recession — 662
Fixing the Credit and Goods and Services Markets — 676
Wall Street Reform and Consumer Protection Act —— 685
More Than a Decade Later, Is Our Financial System Safer? —— 687
Were U.S. Monetary and Fiscal Policies Effective? — 689
Did the Bailout Earn the U.S. Government a Return? — 689
The Next Financial Crisis —— 690

```
Paradoxes of the Great Recession — 690
   Conclusion --- 697
The Rest of the Story --- 698
   Fannie Mae and Freddie Mac — 698
    Securitization: From Mortgage Origination to Security Sales —— 701
    Using Taxpayer Money to Bail Out the Rich --- 704
    Chronology of Major Events: 2007-2009 --- 704
    Acts That Deregulated the U.S. Financial Industry — 707
    Abridged Chronology of U.S. Government Actions: 2007-2009 — 708
    Abridged Chronology of Federal Reserve and Federal Deposit
       Insurance Corporation Actions: 2007-2009 --- 710
    Key Points --- 711
    Review Questions — 712
    Discussion Questions --- 713
 Chapter 22
 Long-Term Growth and Development —— 715
 The Basics --- 715
    Scenario Planning — 715
    Economic Growth and Development - 716
    Economic Growth and the Importance of Compounding — 722
     Government's Role in Economic Development — 723
     Comparative Advantage — 725
 The Rest of the Story --- 732
     A Country Is Not a Company — 732
     Conclusion —— 737
     Key Points --- 739
     Review Questions --- 740
     Discussion Question — 741
  Chapter 23
  Long-Term Inflation, Exchange Rates, and Unemployment --- 743
  The Basics — 744
     Phillips Curve and the Natural-Rate Hypothesis —— 744
      Equation of Exchange —— 753
      Monetarism and the Quantity Theory of Money —— 756
      Long-Term Changes in Exchange Rates — 764
      Linking Purchasing Power Parity Theory and Quantity Theory of
        Money --- 769
  The Rest of the Story —— 771
```

How Well Does PPP Predict Exchange Rates? —— 771
Income Velocity Versus Transactions Velocity —— 774
Conclusion —— 775
Key Points —— 777
Review Questions —— 778
Discussion Questions —— 780

Appendix A List of Abbreviations — 781

Appendix B Important Terms and Concepts — 785

Index --- 791