What are the sorts of phenomena we wish to study in this course?

Short term: levels and volatility of various macroeconomic aggregates

- Output
- Inflation
- Interest Rates/Stock Prices
- Unemployment
Long term: trends in aggregate economic activity

- Growth in per capita output
- Convergence
- Long run inequality and poverty traps
The American Macroeconomy: Some Basic Numbers

You are not, of course, expected to literally memorize these; however, it is important to understand the orders of magnitude for various macroeconomic quantities.

For example, one should know that US unemployment is closer to 5% than 15%!
Population and Labor Supply

- Population:
  - 181 Million (1960)
  - 228 Million (1980)
  - 291 Million (2003)

- Civilian Labor Force
  - 70 Million (1960)
  - 107 Million (1980)
  - 147 Million (2003)
Short Run Economic Activity: Aggregate Output

• Gross Domestic Product (in current dollars)
  
  526 Billion (1960)
  2.789 Trillion (1980)
  11.107 Trillion (2003 third quarter)

• Real Gross Domestic Product (in 2000 dollars)

  2.581 Trillion (1960)
  5.162 Trillion (1980)
  10.493 Trillion (2003 third quarter)
Short Run Economic Activity: Output Per Person

• Real Per Capita Gross Domestic Product (current dollars)

  2,912 (1960)
  12,249 (1980)
  38,032 (2003 third quarter)

• Real Per Capita Gross Domestic Product (2000 dollars)

  13,840 (1960)
  22,666 (1980)
Output Growth

• Real GDP Growth

  2.5% (1960)
  -0.2% (1980)
  8.2% (2003 third quarter)

Questions:
  – How can government policy influence the average and the volatility of these changes?
  – How is output growth related to other aggregate variables?
Short Run Economic Activity:
Unemployment

• Unemployment Rate

  5.5% (1962)
  7.1% (1982)
  5.7% (2003 December)
  24.9% (1933)

Issues we will discuss:
  – In what ways is unemployment an equilibrium phenomenon?
  – How does demographic change influence unemployment rates?
  – How can government policies affect unemployment over different time horizons?
Short Run Economic Activity
Price Behavior

• Inflation (consumer price index, urban)

  1.4% (1960)
  12.5% (1980)
  -0.1% (2003 December)

Questions:

– Why should the public care about inflation?
– Are there tradeoffs between inflation and unemployment?
Short Run Economic Activity: Financial Markets

• Short Term Interest Rates (3 month Treasury Bills)
  2.9% (1960)
  11.5% (1980)
  0.9% (2003 December)

• Long Term Interest Rates (10 year Treasury Bonds)
  4.12% (1960)
  11.46% (1980)
  2.4% (2003 December)

Questions:
– Why are these different? Risk?
Money Supply

- Money Supply (M1)

141 Billion (1960 December)
408 Billion (1980 December)
1.287 Trillion (2003 December)

M1 refers to currency plus demand deposits plus interest bearing accounts with check writing. Is it the relevant measure for the modern economy?
Stock Market

- Dow Jones Industrial Average

  753 (1970)
  891 (1980)
  2678 (1990)
  10,124 (2003, December)

Question:
- Can fluctuations be explained using “economic reasoning”? 
Taxes and Spending

• Federal Government Expenditures (current dollars)

  92 Billion (1960)
  591 Billion (1980)
  2.158 Trillion (2003)

• Federal Government Deficit

  -.3 Billion (1960)
  74 Billion (1980)
  375 Billion (2003)
Taxes and Spending

• Federal Government Expenditures as Percentage of Gross Domestic Product

  17.8% (1960)
  21.7% (1980)
  19.9% (2003)

  43.6% (1943) (year with largest deficit, as % of GDP)
  18.4% (2000) (year with smallest deficit, as % of GDP)
Taxes and Spending

• Budget Deficit as Percentage of Gross Domestic Product
  
  .1% Surplus (1960)
  2.7% (1980)
  3.5% (2003)

  30.3% (1943)
  -2.4% (2000)

Question:
  – How does fiscal policy affect aggregate economy?
## Economic Growth and the Long Run

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<tr>
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<tr>
<td>Argentina</td>
<td>11,690</td>
<td>4.3%</td>
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<tr>
<td>Bangladesh</td>
<td>1680</td>
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<td>Botswana:</td>
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<td>8%</td>
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<td>United States</td>
<td>34,870</td>
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</tr>
</tbody>
</table>
Questions:

– Are there forces that equalize per capita output in different economies?

– How can government policies affect long term per capita output?