Class 1

Econ 402

James Morley
Introduction to the course
Policy questions
What macroeconomists study and how they think
Case Studies: Price Stickiness and the Great Moderation
Is macroeconomics a science?
Introduction to Course

- Syllabus
- Intermediate vs. Intro
- History, Data, Theory
A Policy Question

Will the Fed raise, lower, or hold the federal funds rate at its next meeting?
Should the Fed raise, lower, or hold the federal funds rate at its next meeting? Why?
Will there be a recession in 2008?
What Macroeconomists Study and How They Think

- What do they study?
- How do they think?
- Is Macroeconomics a science?
What Do Macroeconomists Study?

- The “Real” Economy
- The General Price Level
- Monetary and Fiscal Policy
How Do Macroeconomists Think?

- Abstraction (E.g., “a representative agent”, aggregate consumption, a competitive market)
- Theory (explanation and prediction)
- Models
Some Important Distinctions

- Positive vs. Normative?
- Exogenous vs. Endogenous?
- General vs. Partial Equilibrium?
- Static vs. Dynamic?
Case Study: “Sticky Prices”

- Are prices sticky?
- Metaphor?
- Exogenous prices!?!?
- Why might macro policies be helpful?
- Coordination problems for overall price level
- Unemployment
Case Study: “The Great Moderation”

What is the “Great Moderation”? 
Postwar US Real GDP Growth
Is Macroeconomics a Science?

- If so, it is more complicated than micro.
- More like astronomy than an experimental science
- The two-edged sword of aggregation
- A Success Story: Central banks and ivory towers
Read Chapter 1 of Mankiw

Next time: The Data of Macroeconomics (Chapter 2 of Mankiw)