

# Class 1

Econ 402

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# Econ 402

## Class 1 Outline

- 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

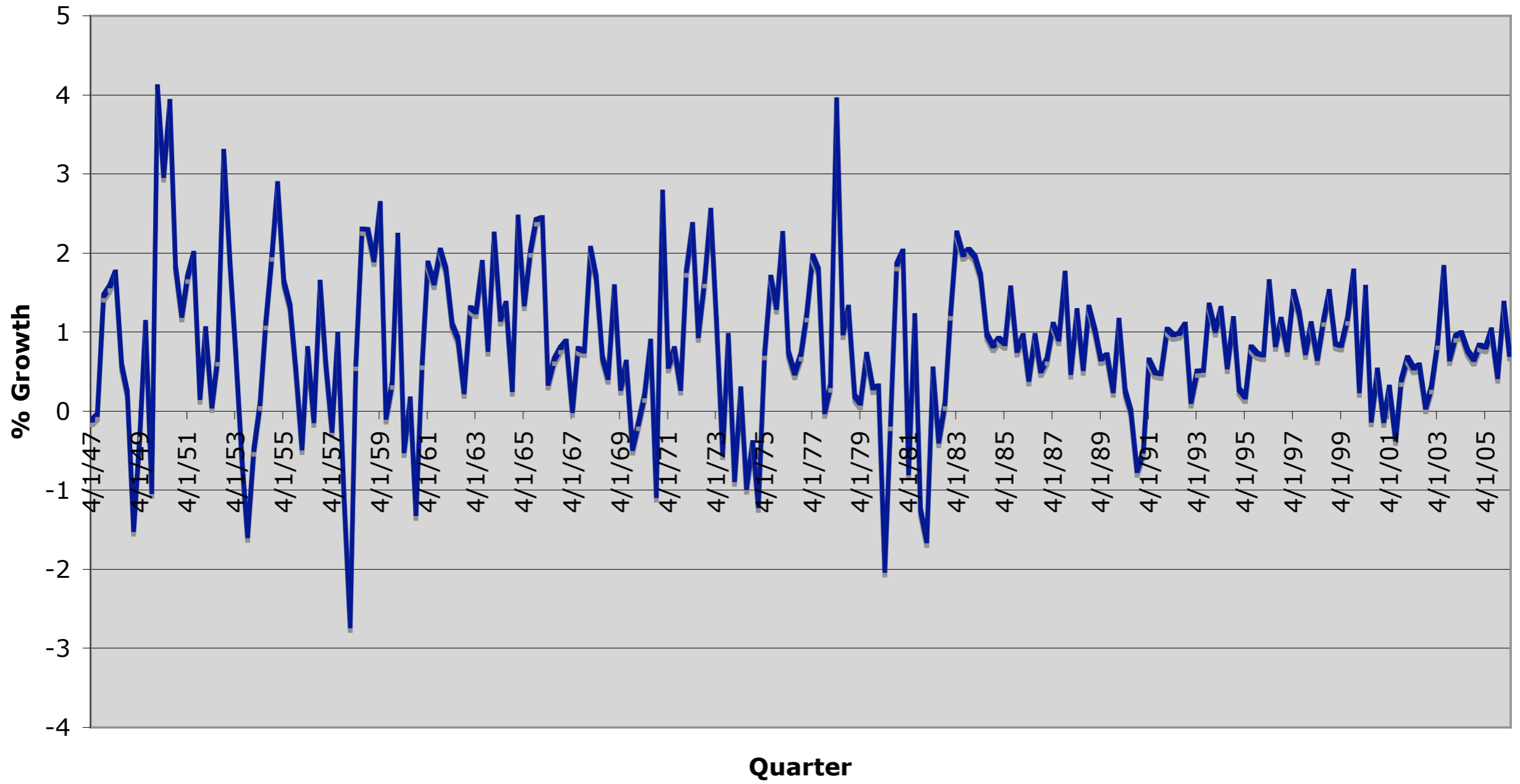


# Case Study: "The Great Moderation"

- 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)