

Lecture 1

1. Overview of market economies

Macroeconomics	Microeconomics
<ul style="list-style-type: none">• System as a whole• Prices and quantities of 'stuff' in general• Large chunks of the economy affect the health of the rest	<ul style="list-style-type: none">• Small parts of a system• Prices and quantities of individual inputs and outputs• The rest of the economy works smoothly

2. Presenting data using graphs

$$\%change = \frac{(new - old)}{old} * 100$$

3. Correlation vs. Causation

Correlation: association or a relationship

- Positive (e.g. higher interest rates is positively correlated with slumps)
- Negative
- None

Causation: the action of causing something

- E.g. higher interest rates causes slumps

Lecture 2

1. The positive-normative distinction

Positive	Normative
<ul style="list-style-type: none">• Statements of fact• How things are• How the world in fact works (or potentially could work)• E.g. 'This is a chair'	<ul style="list-style-type: none">• Statements of value• How things should be• How one would like the world to work, what we advocate or recommend• E.g. 'Everybody should desire comfort'

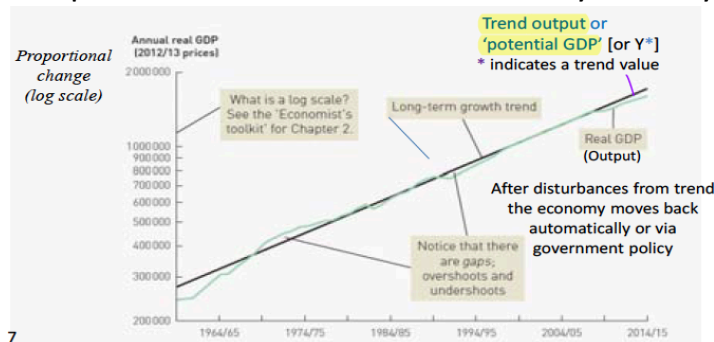
2. Main macroeconomic 'variables'

Total value of output Sum of the value of each type of output
- Value of each type of output = price * quantity

Real GDP	A measure of the quantity output with the effect of changes in P stripped out
Output	Its components and how to measure it
General price level (P)	The average price of total output

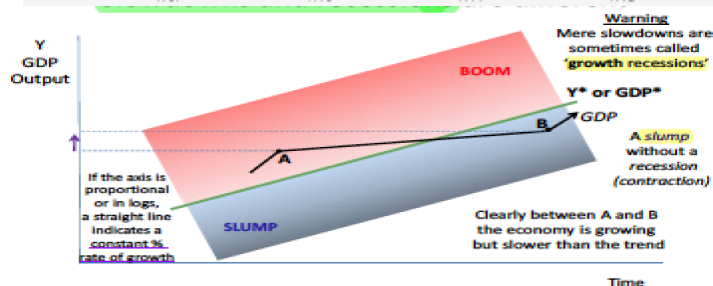
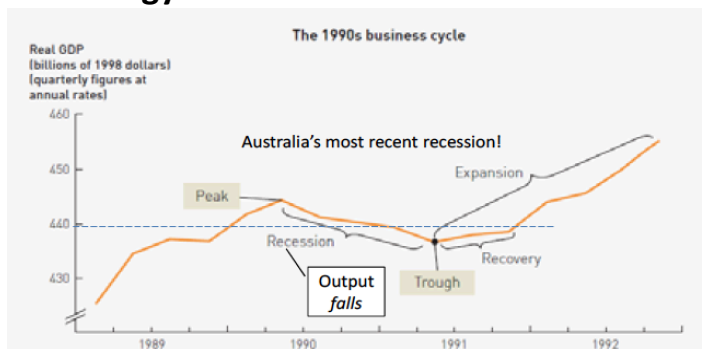
3. Economic Growth & Fluctuations

- An upward trend in real GDP:
→ the expansion over time of the economy's ability to produce



- Use a log scale on an axis, or one in proportions
- Overshoots:
- Positive output gap
- Undershoots:
- Negative output gap

4. Terminology

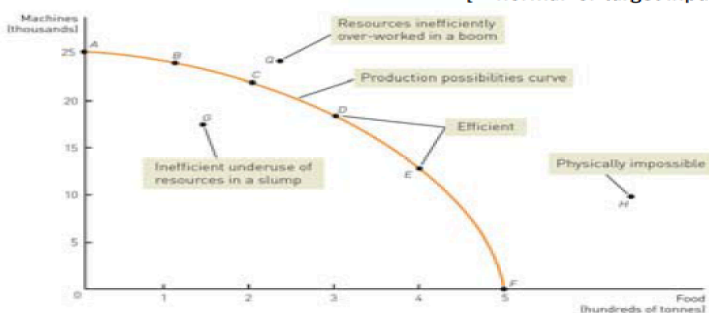


- Recession:
- Two consecutive quarters of negative growth
- Mere slowdowns are sometimes called 'growth recessions'
- Contraction
- Often start in booms
- Slump:
- Negative output gap ($<Y^*$)
- Boom:
- Positive output gap

5. Transforming inputs into outputs

- **Output** depends on:
 - Inputs (measure of total output: GDP) and know-how
 - Labor
 - Capital
 - Land
 - Technology
- Output and the utilization of inputs can change relatively suddenly
- Output need not equal its potential
 - $GDP = (\text{or } \neq) GDP^*$
 - The economy is often off its PPC

6. Production Possibilities Curve (PPC)



- Technology, population etc can keep \uparrow , while inputs unchanged
- Potential output can keep \uparrow , while production is unchanged

7. Unemployment

- **Fluctuations** result from sudden changes in demand (spending)
- **Labor Force** = The employed + The unemployed

$$\% \text{rate of unemployment} = \frac{\text{number unemployed}}{\text{labor force}} * 100$$

- Not unemployed:
 - Those not actively seeking work
 - The retired, discouraged former job-seekers, the young (<15)
 - Working 1 or more hours per week (if they want to work more hours: *under-employed*)
- Unemployed:
 - Working <1 hr. in a week, and
 - Actively looking for work (within the last 4 weeks), and
 - Ready to get started (within a week if an offer is made)

8. Natural rate of unemployment (u^*)

- The rate of unemployment when the labour market is in equilibrium. It is unemployment caused by structural factors.
- Exists in normal times (when u is on trend)
- When there is neither a slump nor a boom
- When real GDP = potential GDP
- Structural unemployment & Frictional unemployment

9. Unemployment Types

<p>Natural unemployment</p>	<p>Structural unemployment</p>	<ul style="list-style-type: none"> • Long-term unemployment • Due to poor skills or longer-term changes in demand or insufficient work incentives in specific industries <ul style="list-style-type: none"> - Mismatch of what skills employers want and what skills workers have - Mismatch of where the jobs are and where workers live
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