



CONTENTS

Preface *xvii*

PART

1

INTRODUCTION AND NATIONAL INCOME ACCOUNTING 1

1. INTRODUCTION 2

- 1-1 Macroeconomics Encapsulated in Three Models 4
- 1-2 To Reiterate . . . 11
- 1-3 Outline and Preview of the Text 17
- 1-4 Prerequisites and Recipes 18

2. NATIONAL INCOME ACCOUNTING 21

- 2-1 The Production of Output and Payments to Factors of Production 22
- 2-2 Outlays and Components of Demand 25
- 2-3 Some Important Identities 30
- 2-4 Measuring Gross Domestic Product 35
- 2-5 Inflation and Price Indexes 37
- 2-6 Unemployment 42
- 2-7 Interest Rates and Real Interest Rates 43
- 2-8 Exchange Rates 45
- 2-9 Where to Grab a Look at the Data 46

PART

2

GROWTH, AGGREGATE SUPPLY AND DEMAND, AND POLICY 51

3. GROWTH AND ACCUMULATION 52

- 3-1 Growth Accounting 54
- 3-2 Empirical Estimates of Growth 57
- 3-3 Growth Theory: The Neoclassical Model 61

4. GROWTH AND POLICY 76

- 4-1 Growth Theory: Endogenous Growth 77
- 4-2 Growth Policy 85

- 5. AGGREGATE SUPPLY AND DEMAND 94
 - 5-1 The Aggregate Supply Curve 98
 - 5-2 The Aggregate Demand Curve 101
 - 5-3 Aggregate Demand Policy under Alternative Supply Assumptions 103
 - 5-4 Supply-Side Economics 106
 - 5-5 Putting Aggregate Supply and Demand Together in the Long Run 108
- 6. AGGREGATE SUPPLY: WAGES, PRICES, AND UNEMPLOYMENT 111
 - 6-1 The Aggregate Supply Curve and the Price Adjustment Mechanism 112
 - 6-2 Inflation and Unemployment 116
 - 6-3 Stagflation, Expected Inflation, and the Inflation-Expectations-Augmented Phillips Curve 120
 - 6-4 The Rational Expectations Revolution 124
 - 6-5 The Wage-Unemployment Relationship: Why Are Wages Sticky? 126
 - 6-6 From Phillips Curve to the Aggregate Supply Curve 131
 - 6-7 Supply Shocks 134
- 7. THE ANATOMY OF INFLATION AND UNEMPLOYMENT 142
 - 7-1 Unemployment 145
 - 7-2 Inflation 146
 - 7-3 The Anatomy of Unemployment 147
 - 7-4 Full Employment 152
 - 7-5 The Costs of Unemployment 161
 - 7-6 The Costs of Inflation 162
 - 7-7 Inflation and Indexation: Inflation-Proofing the Economy 168
 - 7-8 Is a Little Inflation Good for the Economy? 171
 - 7-9 Political Business Cycle Theory 172
- 8. POLICY 180
 - 8-1 Policy: Working Backward 181
 - 8-2 Lags in the Effects of Policy 182
 - 8-3 Expectations and Reactions 188
 - 8-4 Uncertainty and Economic Policy 191
 - 8-5 Targets, Instruments, and Indicators: A Taxonomy 194
 - 8-6 Activist Policy 195
 - 8-7 Which Target?—A Practical Application 201
 - 8-8 Dynamic Inconsistency and Rules versus Discretion 203

PART



FIRST MODELS 213

- 9. INCOME AND SPENDING 214
 - 9-1 Aggregate Demand and Equilibrium Output 215
 - 9-2 The Consumption Function and Aggregate Demand 216

- 9-3 The Multiplier 222
- 9-4 The Government Sector 225
- 9-5 The Budget 230
- 9-6 The Full-Employment Budget Surplus 233
- 10. MONEY, INTEREST, AND INCOME 239**
 - 10-1 The Goods Market and the *IS* Curve 244
 - 10-2 The Money Market and the *LM* Curve 252
 - 10-3 Equilibrium in the Goods and Money Markets 259
 - 10-4 Deriving the Aggregate Demand Schedule 261
 - 10-5 A Formal Treatment of the *IS-LM* Model 263
- 11. MONETARY AND FISCAL POLICY 268**
 - 11-1 Monetary Policy 270
 - 11-2 Fiscal Policy and Crowding Out 279
 - 11-3 The Composition of Output and the Policy Mix 284
 - 11-4 The Policy Mix in Action 288
- 12. INTERNATIONAL LINKAGES 298**
 - 12-1 The Balance of Payments and Exchange Rates 300
 - 12-2 The Exchange Rate in the Long Run 307
 - 12-3 Trade in Goods, Market Equilibrium, and the Balance of Trade 310
 - 12-4 Capital Mobility 313
 - 12-5 The Mundell-Fleming Model: Perfect Capital Mobility under Fixed Exchange Rates 317
 - 12-6 Perfect Capital Mobility and Flexible Exchange Rates 320

PART**4. BEHAVIORAL FOUNDATIONS 333**

- 13. CONSUMPTION AND SAVING 334**
 - 13-1 The Life-Cycle-Permanent-Income Theory of Consumption and Saving 339
 - 13-2 Consumption under Uncertainty: The Modern Approach 344
 - 13-3 Further Aspects of Consumption Behavior 348
- 14. INVESTMENT SPENDING 360**
 - 14-1 The Stock Demand for Capital and the Flow of Investment 364
 - 14-2 Investment Subsectors—Business Fixed, Residential, and Inventory 373
 - 14-3 Investment and Aggregate Supply 384
- 15. THE DEMAND FOR MONEY 390**
 - 15-1 Components of the Money Stock 391
 - 15-2 The Functions of Money 394

- 15-3 The Demand for Money: Theory 396
- 15-4 Empirical Evidence 400
- 15-5 The Income Velocity of Money 404
- 16. THE FED, MONEY, AND CREDIT 411**
 - 16-1 Money Stock Determination: The Money Multiplier 413
 - 16-2 The Instruments of Monetary Control 416
 - 16-3 The Money Multiplier and Bank Loans 422
 - 16-4 Control of the Money Stock and Control of the Interest Rate 423
 - 16-5 Money Stock and Interest Rate Targets 424
 - 16-6 Money, Credit, and Interest Rates 427
 - 16-7 Which Targets for the Fed? 430
- 17. FINANCIAL MARKETS AND ASSET PRICES 434**
 - 17-1 Interest Rates: Long and Short Term 435
 - 17-2 The Random Walk of Stock Prices 441
 - 17-3 Exchange Rates and Interest Rates 446

PART**5****BIG EVENTS, INTERNATIONAL ADJUSTMENTS, AND
ADVANCED TOPICS 451**

- 18. BIG EVENTS: THE ECONOMICS OF DEPRESSION,
HYPERINFLATION, AND DEFICITS 452**
 - 18-1 The Great Depression: The Facts 453
 - 18-2 The Great Depression: The Issues and Ideas 458
 - 18-3 Money and Inflation in Ordinary Business Cycles 461
 - 18-4 Hyperinflation 466
 - 18-5 Deficits, Money Growth, and the Inflation Tax 474
 - 18-6 Budget Deficits: Facts and Issues 480
 - 18-7 Social Security 487
- 19. INTERNATIONAL ADJUSTMENT AND INTERDEPENDENCE 495**
 - 19-1 Adjustment under Fixed Exchange Rates 496
 - 19-2 Exchange Rate Changes and Trade Adjustment:
Empirical Issues 508
 - 19-3 The Monetary Approach to the Balance of Payments 512
 - 19-4 Flexible Exchange Rates, Money, and Prices 515
 - 19-5 Interest Differentials and Exchange Rate Expectations 521
 - 19-6 Exchange Rate Fluctuations and Interdependence 524
 - 19-7 The Choice of Exchange Rate Regimes 531
- 20. ADVANCED TOPICS 538**
 - 20-1 An Overview of the New Macroeconomics 539
 - 20-2 The Rational Expectations Revolution 544
 - 20-3 The Microeconomics of the Imperfect Information Aggregate
Supply Curve 552

20-4	The Random Walk of GDP: Does Aggregate Demand Matter, or Is It All Aggregate Supply?	556
20-5	Real Business Cycle Theory	560
20-6	A New Keynesian Model of Sticky Nominal Prices	563
20-7	Bringing It All Together	566
	Glossary	571
	Index	593