



PREFACE

MACROECONOMICS—THE STUDY OF THE AGGREGATE ECONOMY—is a comparatively young discipline. In its modern guise, it dates back to 1936 and the publication of John Maynard Keynes' *The General Theory of Employment, Interest and Money*. That book, published during the greatest economic cataclysm of the twentieth century, the Great Depression, revolutionised thinking about macroeconomics. It demonstrated that a different set of tools to those usually employed by economists was needed to understand events like the Great Depression. Since then, both the world and macroeconomics have steadily evolved. We now face macroeconomic problems that were simply not relevant at the time of Keynes. We have, for example, passed through the Great Inflation of the 1970s and 1980s—a sustained period of double-digit inflation that required further refinement of the economists' toolkit. Today, topics such as globalisation and the IT revolution continue to pose challenges for macroeconomists and policy makers alike.

This text aims to provide an introduction to modern macroeconomics. We do not attempt to offer an encyclopaedic treatment of the discipline. Instead, our approach is to emphasise the key ideas that have shaped modern thinking about macroeconomics and to present those ideas in the most intuitive way possible. We encourage readers to learn to 'think like an economist' by providing examples from recent Australian and world economic history to show how macroeconomics can aid the understanding of important real world events. At the same time, we believe that students are best served by receiving a good grounding in key macroeconomic principles, cornerstones of our discipline, which will assist analysis of whatever new macroeconomic phenomenon awaits us in the future.

A key feature of this book is our treatment of time. We begin with the very short run, a world in which output and employment, but not prices, adjust to aggregate spending changes. We then lengthen the time period to consider situations in which prices, output and employment all adjust in response to changes in aggregate spending plans, then lengthen the time frame of analysis still further to consider a world in which prices alone adjust. Finally, we tackle the very long run, the period in which the economy's potential level of aggregate output is itself capable of change. Many texts in macroeconomics take a different approach to ours, beginning their analysis using the very long run and then moving downwards to the short-run world of fixed prices. We believe, however, that the ordering we have adopted flows more naturally, making it possible to appreciate the commonality that characterises macroeconomists' approaches to understanding the aggregate economy whilst still seeing how different modelling methodologies are required for different time frames of analysis.