

Changes to this edition

In response to market feedback, two new chapters have been included in this second Australian edition—Chapter 17 on Inflation and Chapter 18 on Unemployment. The book has been thoroughly revised and updated, with more real-world material added, illustrating how the theory applies in today's macroeconomic environment. Further, the 'Exhibits' have been re-named as 'Insights' and in many cases rewritten to ensure that recent

chapter 1

- Amended to reflect the new structure of the book

chapter 2

- Updated to include changes to national income accounting conventions and terminology
- New *Insight 2.2 The human development indicator and green GDP*

chapter 3

- New *Insight 3.3 The importance of information technology (IT) capital*
- New *Insight 3.4 Why do some countries produce so much more output per worker than others?*

chapter 4

- Restructured to integrate two of the former *Optional* sections into the main body of the chapter
- New section 4.3, including lessons in economic growth from Asia and Africa, as well as existing material on the Asian Tigers
- New sub-section on social infrastructure
- New extended section on truly poor countries (with particular focus on the sub-Saharan African countries)

chapter 5

- New section 5.5 *Putting aggregate supply and demand together in the long run*
- New section 5.6 *Linking output to employment and unemployment*, introducing the stylised macro labour market and unemployment concepts earlier in the book and more clearly linking the goods/output market to the labour market
- New *Insight 5.4 The Laffer Curve*, included in section on supply side economics
- New *Insight 5.5 Okun's Law in Australia*, expanded to better illustrate the link between output and unemployment

chapter 6

- Restructured to improve the flow of the chapter
- New *Insight 6.6 The price level and the Goods and Services Tax*
- New *Insight 6.3 Wage setting in Australia*, discusses the Award system, enterprise bargaining, etc. in the Australian context.
- New section 6.7 *The supply curve adjusted for expectations*, provides a brief derivation of the dynamic inflation-expectations-augmented supply curve
- Additional *Insight 6.5 Oil Shocks*, better illustrates material previously covered within the chapter

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material and examples are included. Material from the previous edition's online case studies has also been incorporated into the book, providing additional context to assist student's understanding.

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chapter 11

- Revised in focus to reflect price and exchange rate adjustment under fixed and flexible exchange rates, and exchange rate regimes
- New section 11.7 on the Asian crisis

chapter 12

- New *Insight 12.2 Linking demography and consumption*, covers demographic change

chapter 15

- New *Insight 15.4 Inflation targeting today*
- Updated institutional details

chapter 17

- Entirely new chapter on ongoing inflation, including deflation in Japan
- Incorporates selected material from Chapter 7 of the first edition on the costs of inflation, indexation, prices and incomes accord, and whether a little inflation is good for the economy
- Discusses policy strategies for fighting inflation (gradualism vs cold turkey), emphasising the importance of credibility
- Includes material on the relationship between money and inflation in the longer term and the dynamic adjustment of output and prices in the shorter term
- Discusses hyperinflation, and inflation and interest rates
- Discusses the relationship between deficits and inflation during high inflation periods and the inflation tax

chapter 18

- Entirely new chapter on unemployment
- Incorporates selected material from chapter 7 and chapter 19 of the first edition
- Includes policy section on lessons from Ireland and The Netherlands, and the five economists

chapter 19

- New *Insight 19.4 Taylor's Rule*
- New section on positive theory of policymaking and political business cycles

chapter 20

- New section *Bringing it all together*