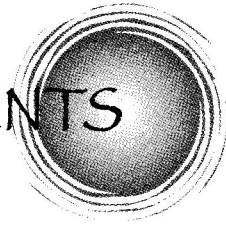


CONTENTS



PART 1	Introduction and Measurement Issues	19
<i>Chapter 1</i>	Introduction	20
	What Is Macroeconomics?	20
	Gross Domestic Product, Economic Growth, and Business Cycles	21
	Macroeconomic Models	25
	Microeconomic Principles	28
	Disagreement in Macroeconomics	29
	What Do We Learn from Macroeconomic Analysis?	30
	Understanding Recent and Current Macroeconomic Events	33
	Chapter Summary	51
	Key Terms	51
	Questions for Review	52
	Problems	53
	Working with the Data	54
<i>Chapter 2</i>	Measurement	55
	Measuring GDP: The National Income and Product Accounts	55
	Nominal and Real GDP and Price Indices	64
	MACROECONOMICS IN ACTION: Comparing Real GDP Across Countries and the Penn Effect	72
	MACROECONOMICS IN ACTION: House Prices and GDP Measurement	73
	Savings, Wealth, and Capital	75
	Labor Market Measurement	76
	MACROECONOMICS IN ACTION: Alternative Measures of the Unemployment Rate	78
	Chapter Summary	80
	Key Terms	80
	Questions for Review	82
	Problems	82
	Working with the Data	85
<i>Chapter 3</i>	Business Cycle Measurement	86
	Regularities in GDP Fluctuations	86

MACROECONOMICS IN ACTION: Economic Forecasting and the Financial Crisis	89	
Comovement	90	
The Components of GDP	96	
Nominal Variables	99	
Labor Market Variables	102	
MACROECONOMICS IN ACTION: Jobless Recoveries	104	
Seasonal Adjustment	106	
MACROECONOMICS IN ACTION: The Great Moderation and the 2008–2009 Recession	107	
Comovement Summary	109	
Chapter Summary	110	Problems 112
Key Terms	110	Working with the Data 112
Questions for Review	111	

PART II A One-Period Model of the Macroeconomy 113

<i>Chapter 4</i>	Consumer and Firm Behavior: The Work–Leisure Decision and Profit Maximization	114
	The Representative Consumer	115
	The Representative Firm	134
	MACROECONOMICS IN ACTION: How Elastic is Labor Supply?	135
	MACROECONOMICS IN ACTION: Henry Ford and Total Factor Productivity	145
	THEORY CONFRONTS THE DATA: Total Factor Productivity and the U.S. Aggregate Production Function	146
	Chapter Summary	149
	Key Terms	150
	Questions for Review	151
	Problems	152
	Working with the Data	154
<i>Chapter 5</i>	A Closed-Economy One-Period Macroeconomic Model	155
	Government	156
	Competitive Equilibrium	156
	Optimality	163
	Working with the Model: The Effects of a Change in Government Purchases	169
	THEORY CONFRONTS THE DATA: Government Spending in World War II	171
	Working with the Model: A Change in Total Factor Productivity	172

THEORY CONFRONTS THE DATA: Total Factor Productivity, Real GDP, and Energy Prices	177
MACROECONOMICS IN ACTION: Government Expenditures and the American Recovery and Reinvestment Act of 2009	180
A Distorting Tax on Wage Income, Tax Rate Changes, and the Laffer Curve	184
A Model of Public Goods: How Large Should the Government Be?	191
Chapter Summary	195
Key Terms	195
Questions for Review	196
Problems	197
Working with the Data	199

Chapter 6 Search and Unemployment 200

Labor Market Facts	201
MACROECONOMICS IN ACTION: Unemployment and Employment in the United States and Europe	205
A Diamond-Mortensen-Pissarides Model of Search and Unemployment	207
Working with the DMP Model	217
MACROECONOMICS IN ACTION: Unemployment Insurance and Incentives	219
THEORY CONFRONTS THE DATA: Productivity, Unemployment, and Real GDP in the United States and Canada: The 2008–2009 Recession	225
A Keynesian DMP Model	227
MACROECONOMICS IN ACTION: The Natural Rate of Unemployment and the 2008–2009 Recession	231
Chapter Summary	232
Key Terms	233
Questions for Review	233
Problems	234
Working with the Data	235

PART III Economic Growth 237

Chapter 7 Economic Growth: Malthus and Solow	238
Economic Growth Facts	239
The Malthusian Model of Economic Growth	244
The Solow Model: Exogenous Growth	255
THEORY CONFRONTS THE DATA: The Solow Growth Model, Investment Rates, and Population Growth	268
MACROECONOMICS IN ACTION: Resource Misallocation and Total Factor Productivity	270

	MACROECONOMICS IN ACTION: Recent Trends in Economic Growth in the United States	271
	Growth Accounting	272
	MACROECONOMICS IN ACTION: Development Accounting	279
	Chapter Summary	281
	Problems	283
	Key Terms	282
	Working with the Data	285
	Questions for Review	282
<i>Chapter 8</i>	Income Disparity Among Countries and Endogenous Growth	286
	Convergence	287
	THEORY CONFRONTS THE DATA: Is Income Per Worker Converging in the World?	292
	MACROECONOMICS IN ACTION: Measuring Economic Welfare: Per Capita Income, Income Distribution, Leisure, and Longevity	293
	Endogenous Growth: A Model of Human Capital Accumulation	294
	MACROECONOMICS IN ACTION: Education and Growth	303
	Chapter Summary	305
	Problems	306
	Key Terms	305
	Working with the Data	307
	Questions For Review	305
PART IV	Savings, Investment, and Government Deficits	309
<i>Chapter 9</i>	A Two-Period Model: The Consumption–Savings Decision and Credit Markets	310
	A Two-Period Model of the Economy	311
	THEORY CONFRONTS THE DATA: Consumption Smoothing and the Stock Market	327
	The Ricardian Equivalence Theorem	339
	MACROECONOMICS IN ACTION: The Economic Growth and Tax Relief Reconciliation Act and National Saving	349
	THEORY CONFRONTS THE DATA: Government Financing Arithmetic: Are Government Budget Deficits Sustainable?	351
	Chapter Summary	354
	Problems	357
	Key Terms	355
	Working with the Data	359
	Questions for Review	356
<i>Chapter 10</i>	Credit Market Imperfections: Credit Frictions, Financial Crises, and Social Security	360
	Credit Market Imperfections and Consumption	362

Credit Market Imperfections, Asymmetric Information, and the Financial Crisis	365
THEORY CONFRONTS THE DATA: Asymmetric Information and Interest Rate Spreads	367
Credit Market Imperfections, Limited Commitment, and the Financial Crisis	369
THEORY CONFRONTS THE DATA: The Housing Market, Collateral, and Consumption	372
THEORY CONFRONTS THE DATA: Low Real Interest Rates and the Financial Crisis	379
Social Security Programs	381
MACROECONOMICS IN ACTION: Transitions from Pay-As-You-Go to Fully Funded Social Security	387
Chapter Summary	388
Key Terms	389
Questions for Review	389
Problems	390
Working with the Data	392
Chapter 11 A Real Intertemporal Model with Investment	393
The Representative Consumer	394
The Representative Firm	400
THEORY CONFRONTS THE DATA: Investment and the Interest Rate Spread	412
Government	414
Competitive Equilibrium	415
The Equilibrium Effects of a Temporary Increase in G : Stimulus, the Multiplier, and Crowding Out	426
MACROECONOMICS IN ACTION: The Total Government Spending Multiplier: Barro vs. Romer	430
The Equilibrium Effects of a Decrease in the Current Capital Stock K	432
The Equilibrium Effects of an Increase in Current Total Factor Productivity z	433
The Equilibrium Effects of an Increase in Future Total Factor Productivity, z' : News About the Future and Aggregate Economic Activity	436
THEORY CONFRONTS THE DATA: News, the Stock Market, and Investment Expenditures	437
Credit Market Frictions and the Financial Crisis	439
THEORY CONFRONTS THE DATA: Interest Rate Spreads and Aggregate Economic Activity	441
Sectoral Shocks and Labor Market Mismatch	443

THEORY CONFRONTS THE DATA: The Behavior of Real GDP, Employment, and Labor Productivity in the 1981–1982 and 2008–2009 Recessions	446
Chapter Summary	449
Key Terms	450
Questions for Review	450
Problems	451
Working with the Data	453

PART V Money and Business Cycles 455

<i>Chapter 12</i>	Money, Banking, Prices, and Monetary Policy	456
	What Is Money?	457
	A Monetary Intertemporal Model	458
	A Level Increase in the Money Supply and Monetary Neutrality	472
	Shifts in Money Demand	475
	THEORY CONFRONTS THE DATA: Instability in the Money Demand Function	478
	The Short-Run Non-Neutrality of Money: Friedman–Lucas Money Surprise Model	480
	The Zero Lower Bound and Quantitative Easing	490
	MACROECONOMICS IN ACTION: Empirical Evidence on Quantitative Easing	493
	Chapter Summary	496
	Key Terms	497
	Questions for Review	498
	Problems	499
	Working with the Data	500
<i>Chapter 13</i>	Business Cycle Models with Flexible Prices and Wages	501
	The Real Business Cycle Model	503
	A Keynesian Coordination Failure Model	511
	MACROECONOMICS IN ACTION: Business Cycle Models and the Great Depression	512
	A New Monetarist Model: Financial Crises and Deficient Liquidity	522
	MACROECONOMICS IN ACTION: Uncertainty and Business Cycles	532
	Chapter Summary	533
	Key Terms	534
	Questions for Review	534
	Problems	535
	Working with the Data	536
<i>Chapter 14</i>	New Keynesian Economics: Sticky Prices	537
	The New Keynesian Model	539
	The Nonneutrality of Money in the New Keynesian Model	541

THEORY CONFRONTS THE DATA: Can the New Keynesian Model Under Fluctuations in the Interest Rate Target Explain Business Cycles?	543
THEORY CONFRONTS THE DATA: Keynesian Aggregate Demand Shocks as Causes of Business Cycles	544
The Role of Government Policy in the New Keynesian Model	546
Total Factor Productivity Shocks in the New Keynesian Model	549
MACROECONOMICS IN ACTION: The Timing of the Effects of Fiscal and Monetary Policy	550
The Liquidity Trap and Sticky Prices	553
MACROECONOMICS IN ACTION: New Keynesian Models, the Zero Lower Bound, and Quantitative Easing	555
Criticisms of Keynesian Models	557
MACROECONOMICS IN ACTION: How Sticky Are Nominal Prices?	558
Chapter Summary	559
Key Terms	560
Questions for Review	560
Problems	561
Working with the Data	562

PART VI International Macroeconomics 563

<i>Chapter 15</i>	International Trade in Goods and Assets	564
	A Two-Period Small Open-Economy Model: The Current Account	565
	THEORY CONFRONTS THE DATA: Is a Current Account Deficit a Bad Thing?	569
	Production, Investment, and the Current Account	573
	MACROECONOMICS IN ACTION: The World "Savings Glut"	580
	Chapter Summary	581
	Key Terms	582
	Questions for Review	582
	Problems	583
	Working with the Data	584
<i>Chapter 16</i>	Money in the Open Economy	585
	The Nominal Exchange Rate, the Real Exchange Rate, and Purchasing Power Parity	586
	THEORY CONFRONTS THE DATA: The PPP Relationship for the United States and Canada	588
	Flexible and Fixed Exchange Rates	588
	A Monetary Small Open-Economy Model with a Flexible Exchange Rate	591

THEORY CONFRONTS THE DATA: Why Did the U.S. Currency Appreciate After the Onset of the Financial Crisis?	598
A Monetary Small Open Economy with a Fixed Exchange Rate	599
MACROECONOMICS IN ACTION: Sovereign Debt and the EMU	608
Capital Controls	610
MACROECONOMICS IN ACTION: Do Capital Controls Work in Practice?	614
A New Keynesian Sticky Price Open-Economy Model	615
Chapter Summary	620
Key Terms	621
Questions for Review	622
Problems	623
Working with the Data	624

PART VII **Money, Banking, and Inflation** 625

<i>Chapter 17</i>	Money, Inflation, and Banking	626
	Alternative Forms of Money	627
	MACROECONOMICS IN ACTION: Commodity Money and Commodity-Backed Paper Money Yap Stones and Playing Cards	629
	Money and the Absence of Double Coincidence of Wants: The Role of Commodity Money and Fiat Money	630
	Long-Run Inflation in the Monetary Intertemporal Model	634
	MACROECONOMICS IN ACTION: Should the Fed Reduce the Inflation Rate to Zero or Less?	643
	Financial Intermediation and Banking	644
	MACROECONOMICS IN ACTION: Banks, Non-Bank Financial Intermediaries, Too-Big-to-Fail, and Moral Hazard	655
	MACROECONOMICS IN ACTION: Bank Failures and Banking Panics in the United States and Canada	658
	Chapter Summary	660
	Key Terms	660
	Questions for Review	661
	Problems	662
	Working with the Data	663
<i>Chapter 18</i>	Inflation, the Phillips Curve, and Central Bank Commitment	664
	The Phillips Curve	665
	The Phillips Curve, Inflation Forecasting, and the Fed's Dual Mandate	674

MACROECONOMICS IN ACTION: Commitment and Post Financial

Crisis Monetary Policy in the United States 676

Chapter Summary 677 Problems 678

Key Terms 678 Working with the Data 679

Questions for Review 678

Appendix **Mathematical Appendix** 680

Chapter 4: Consumer and Firm Behavior 680

Chapter 5: A Closed-Economy One-Period

Macroeconomic Model 684

Chapter 6: Search and Unemployment 687

Chapters 7 and 8: Economic Growth 690

Chapter 9: A Two-Period Model 695

Chapter 11: A Real Intertemporal Model with Investment 698

Chapter 12: Money, Banking, Prices, and Monetary Policy 700

Chapter 17: Money, Inflation, and Banking 705

Chapter 18: Inflation, the Phillips Curve, and Central Bank

Commitment 709

Index 711