

Econ 305

Ken Kasa

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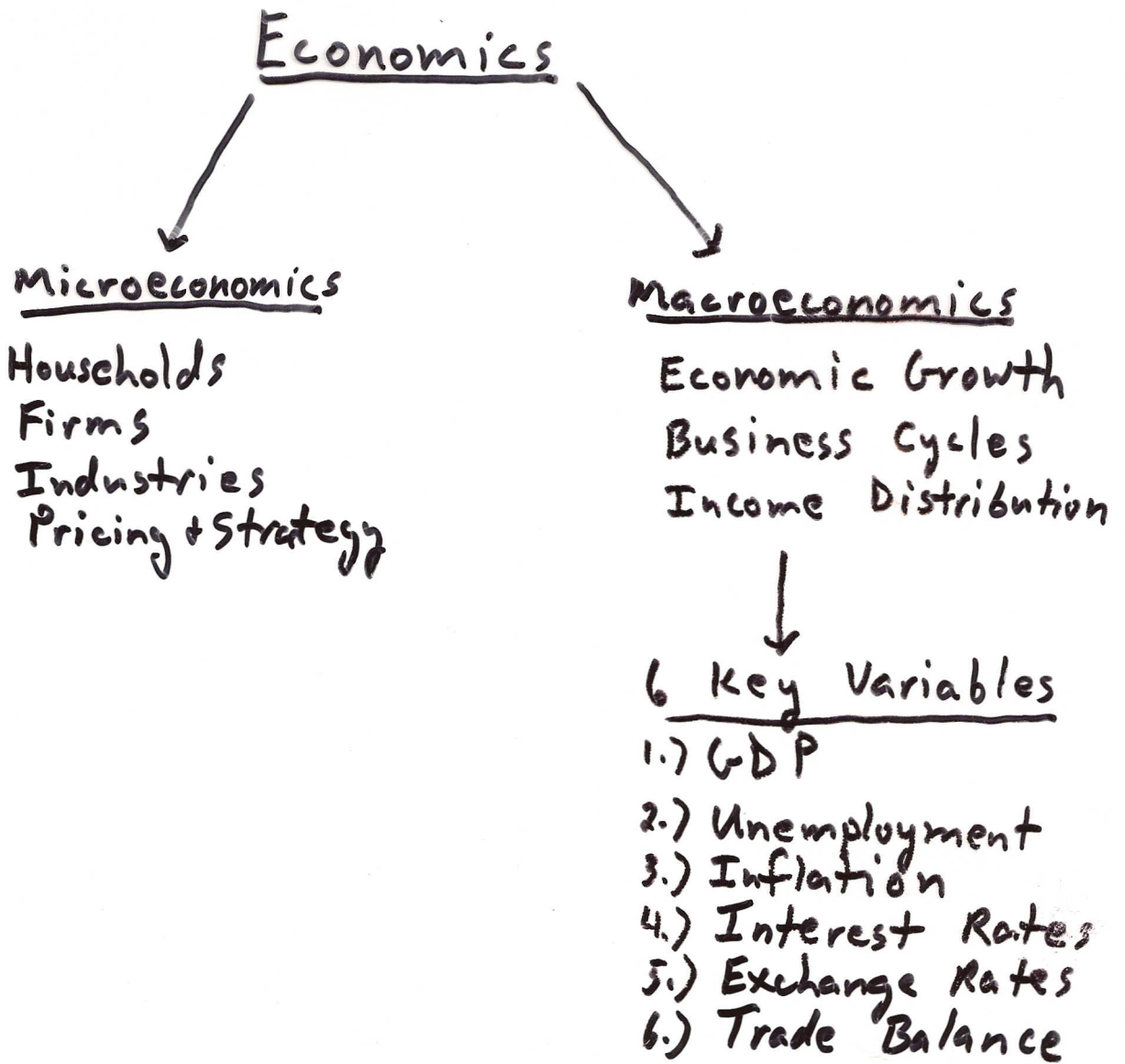
webpage : www.sfu.ca/~KKasa/

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Book : "Macroeconomics" (5th Can. Ed.)
Abel - Bernanke - Kneebone

Grades	Problem Sets	20%
	Midterm	40%
	Final	40%

TAs : 1.) Zelalem Addis (zaa3@sfu.ca)
2.) Sha Li (sla113@sfu.ca)



Our Goal is to understand how these variables are determined and why they change over time.



Short-Run

Technology,
Factor Supplies,
and wages are
fixed

Long-Run

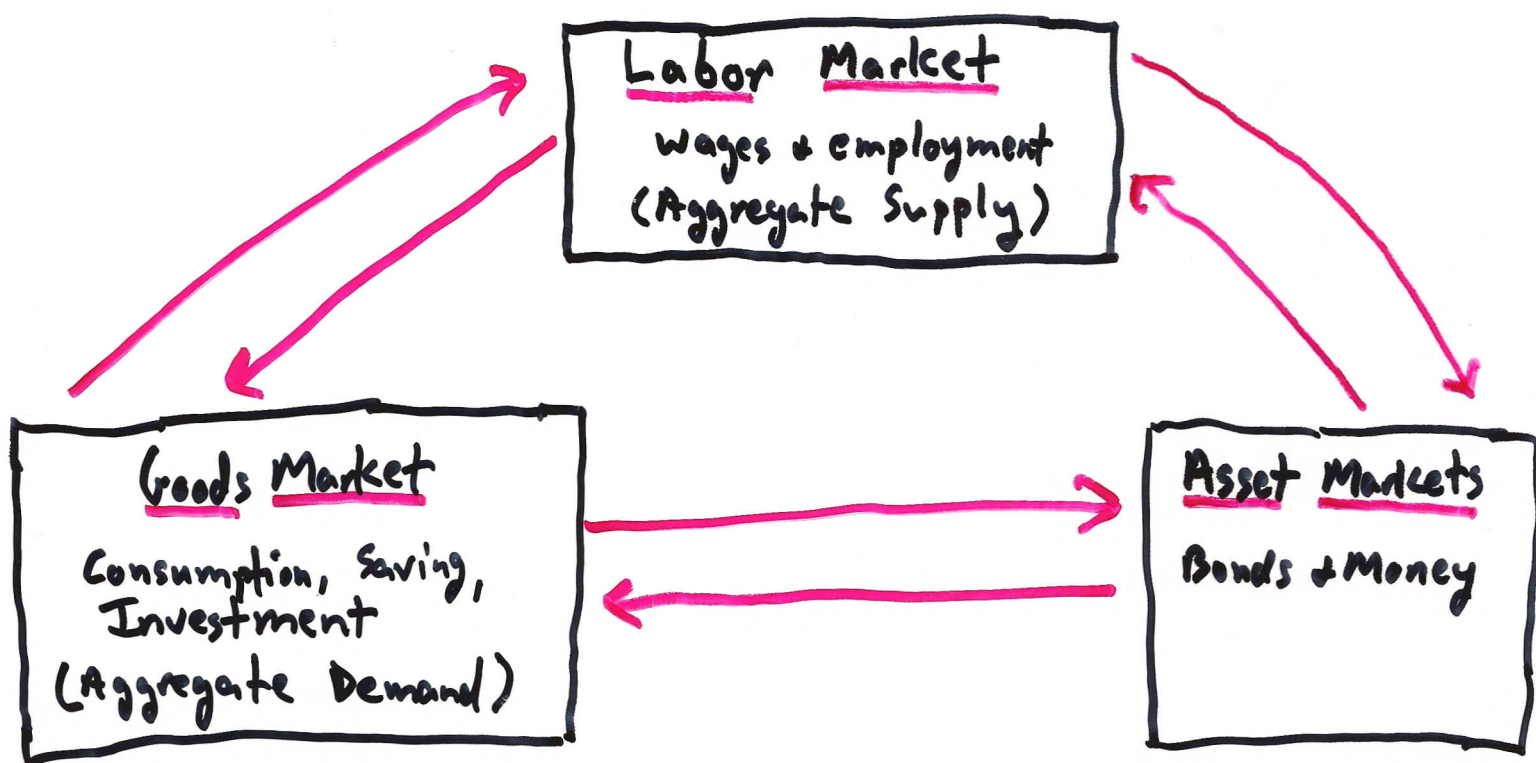
Technology and
Factor Supplies
are fixed

Really Long-Run

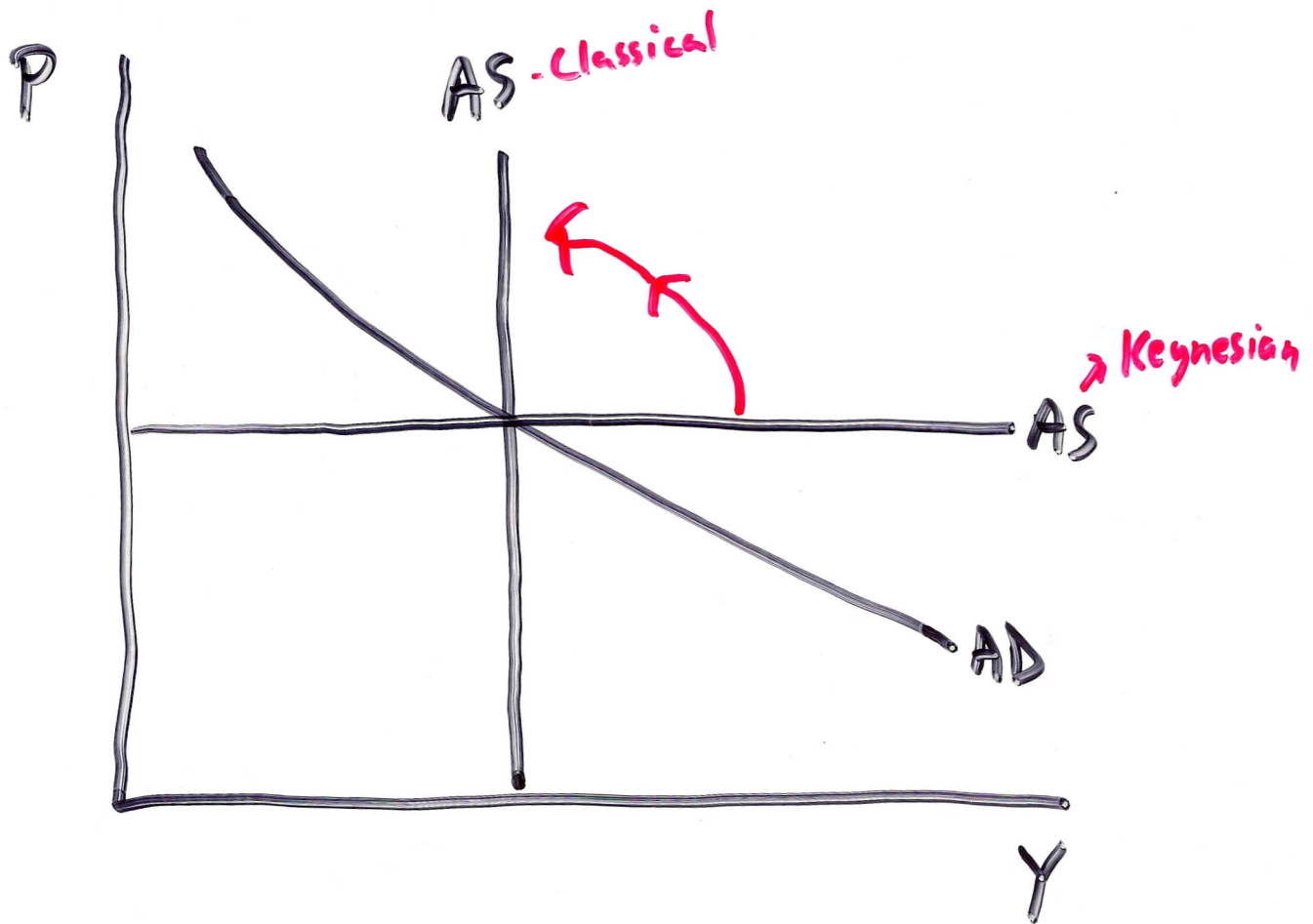
Everything ~~is~~
change.

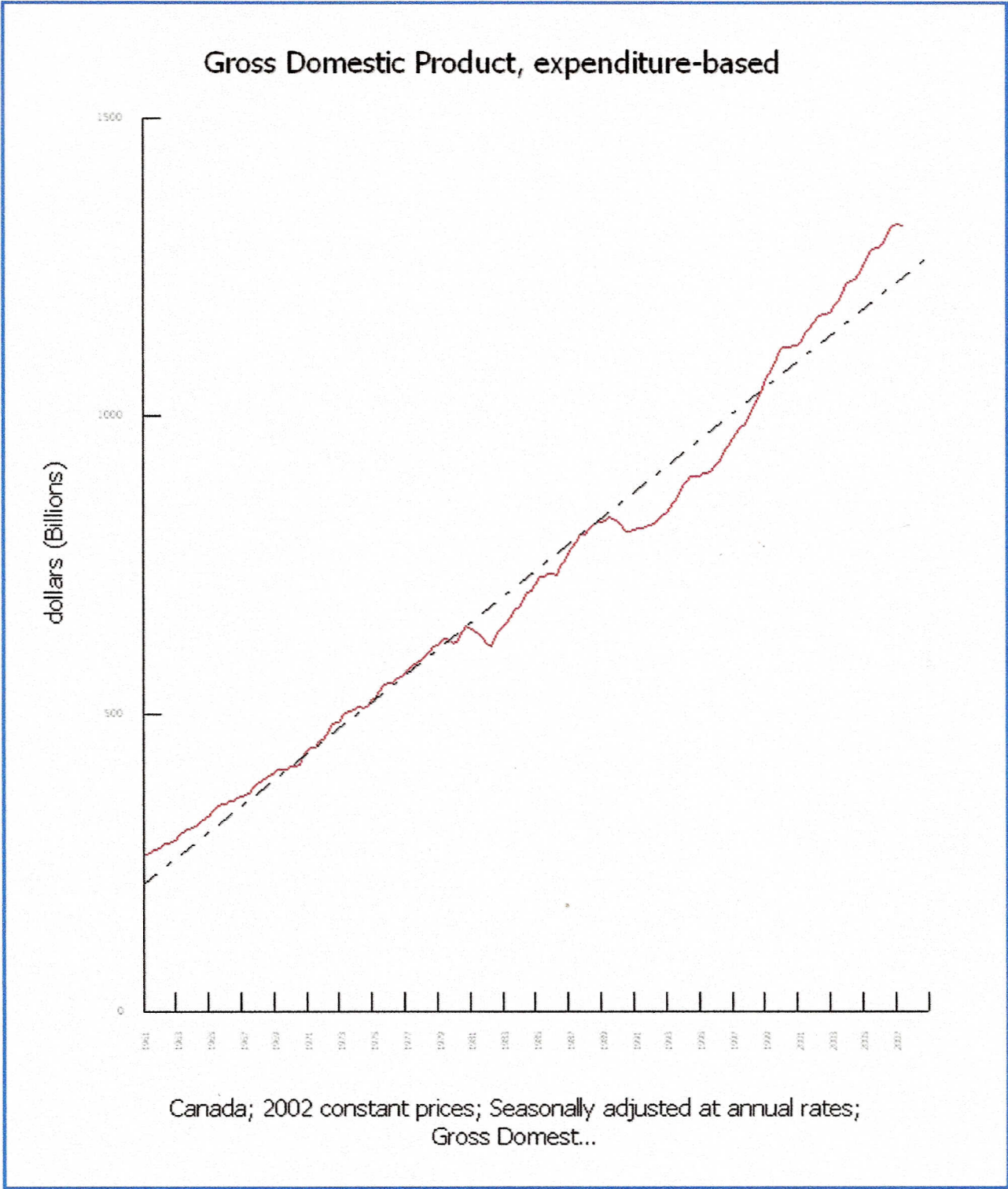
Unlike microeconomics, which focuses on partial equilibrium (i.e., individual markets), in macroeconomics we try to develop general equilibrium models, which consider interactions among all markets in the economy.

The model we are going to develop focuses on interactions among 3 main markets:

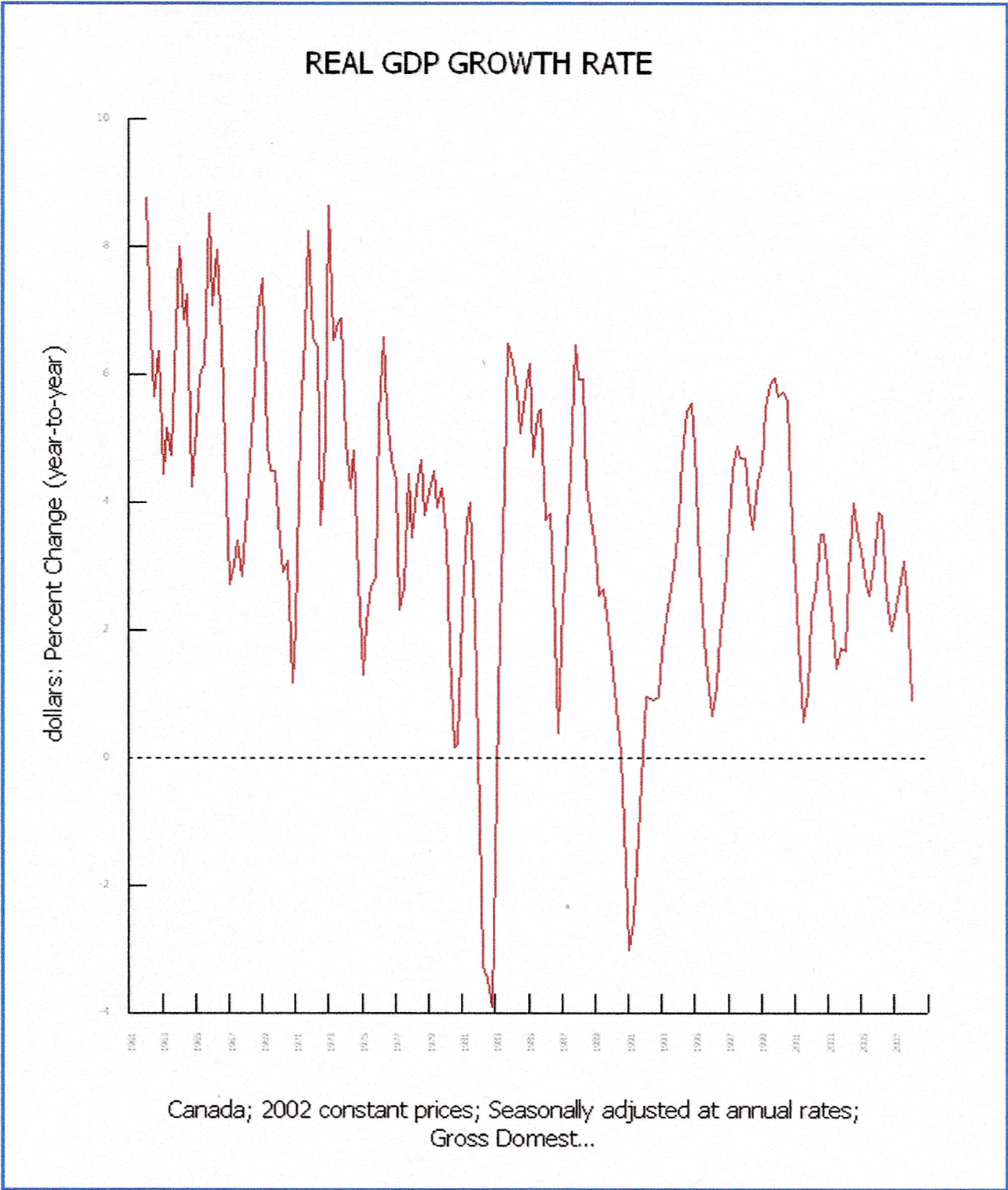


Crash Course on Macroeconomic Debates

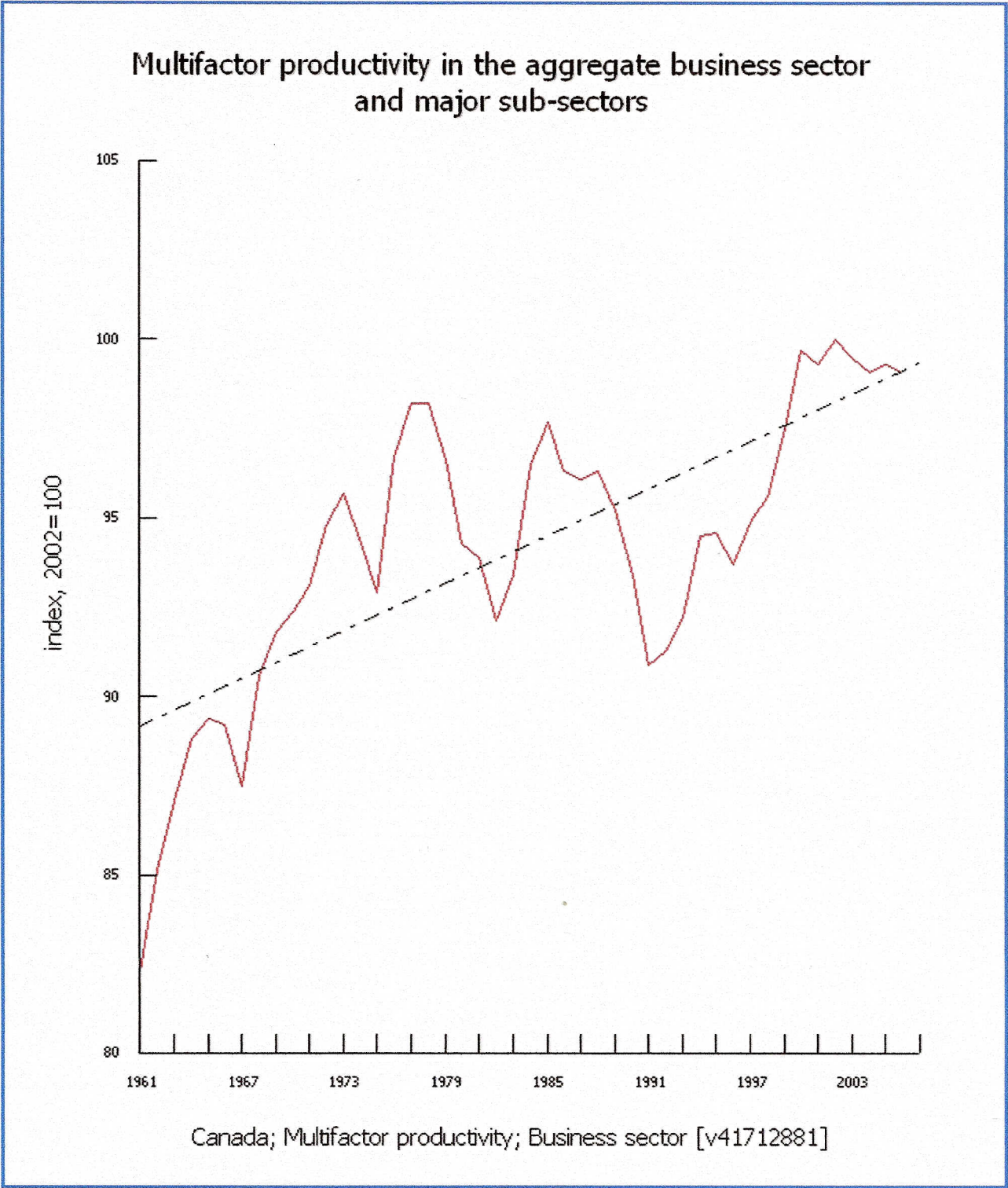




Source: Statistics Canada, CANSIM table 380-0002.



Source: Statistics Canada, CANSIM table 380-0002.



Source: Statistics Canada, CANSIM table 383-0021.

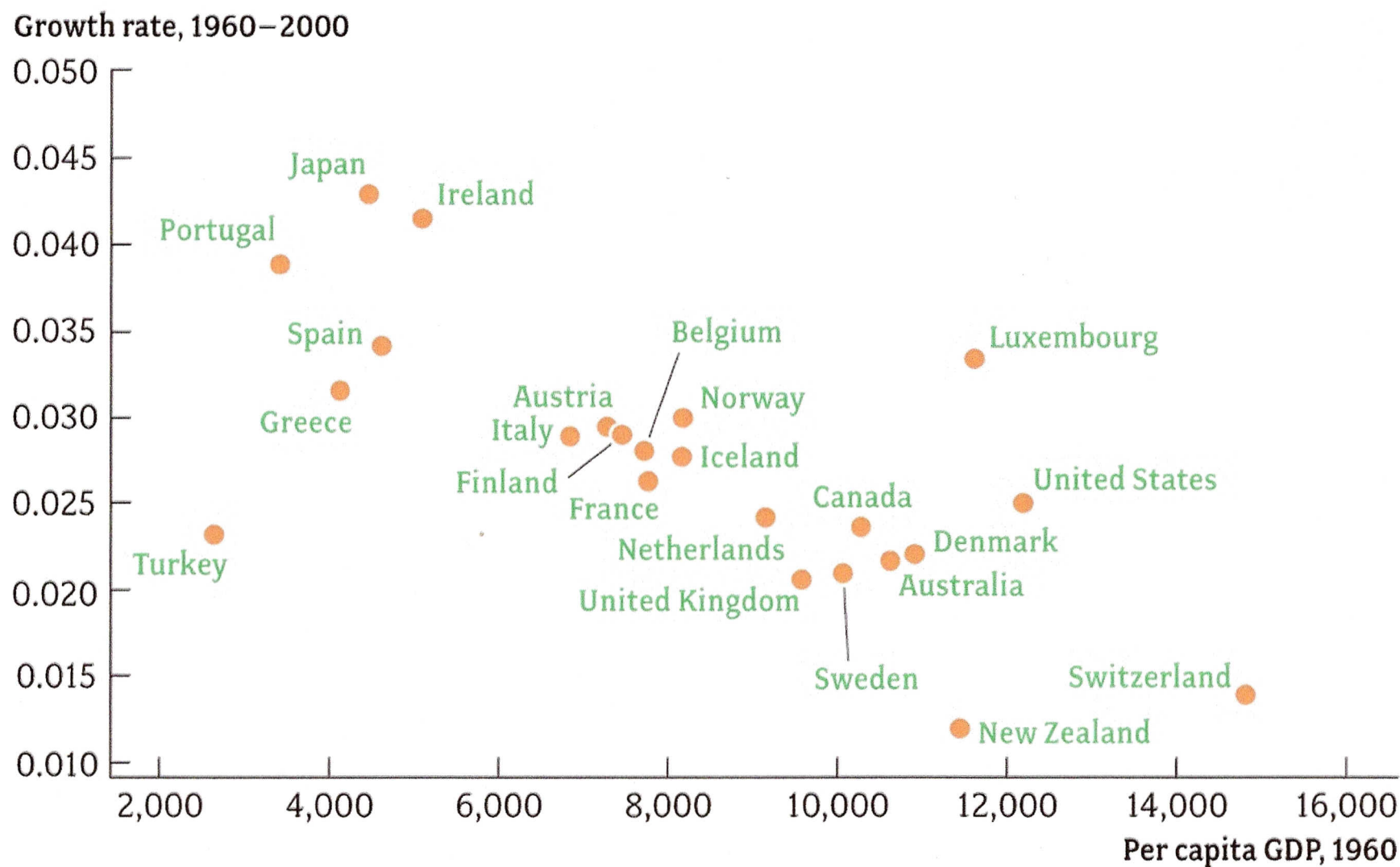


FIGURE 5.8 Growth Rates in the OECD, 1960–2000

Macroeconomics, Charles I. Jones
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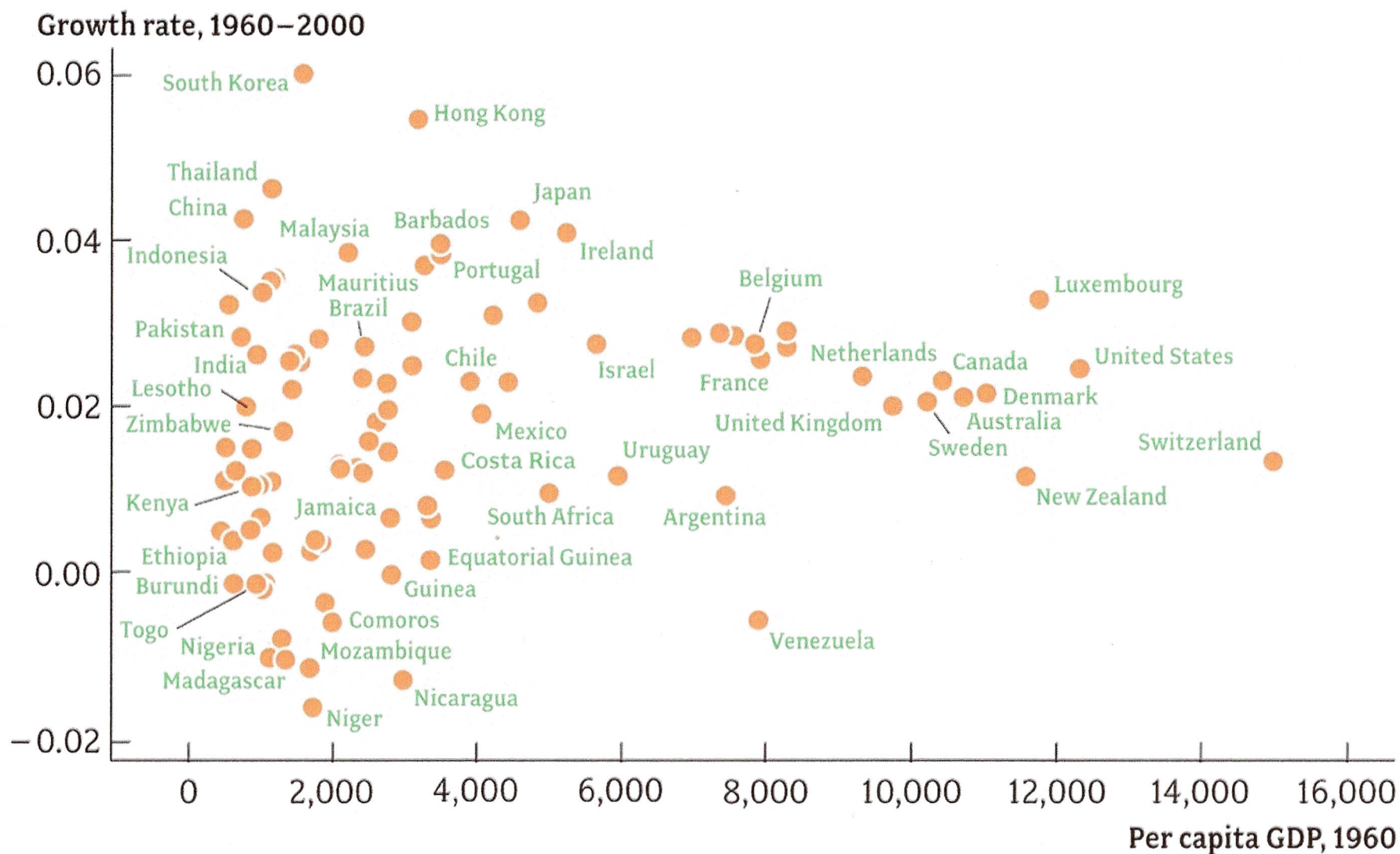
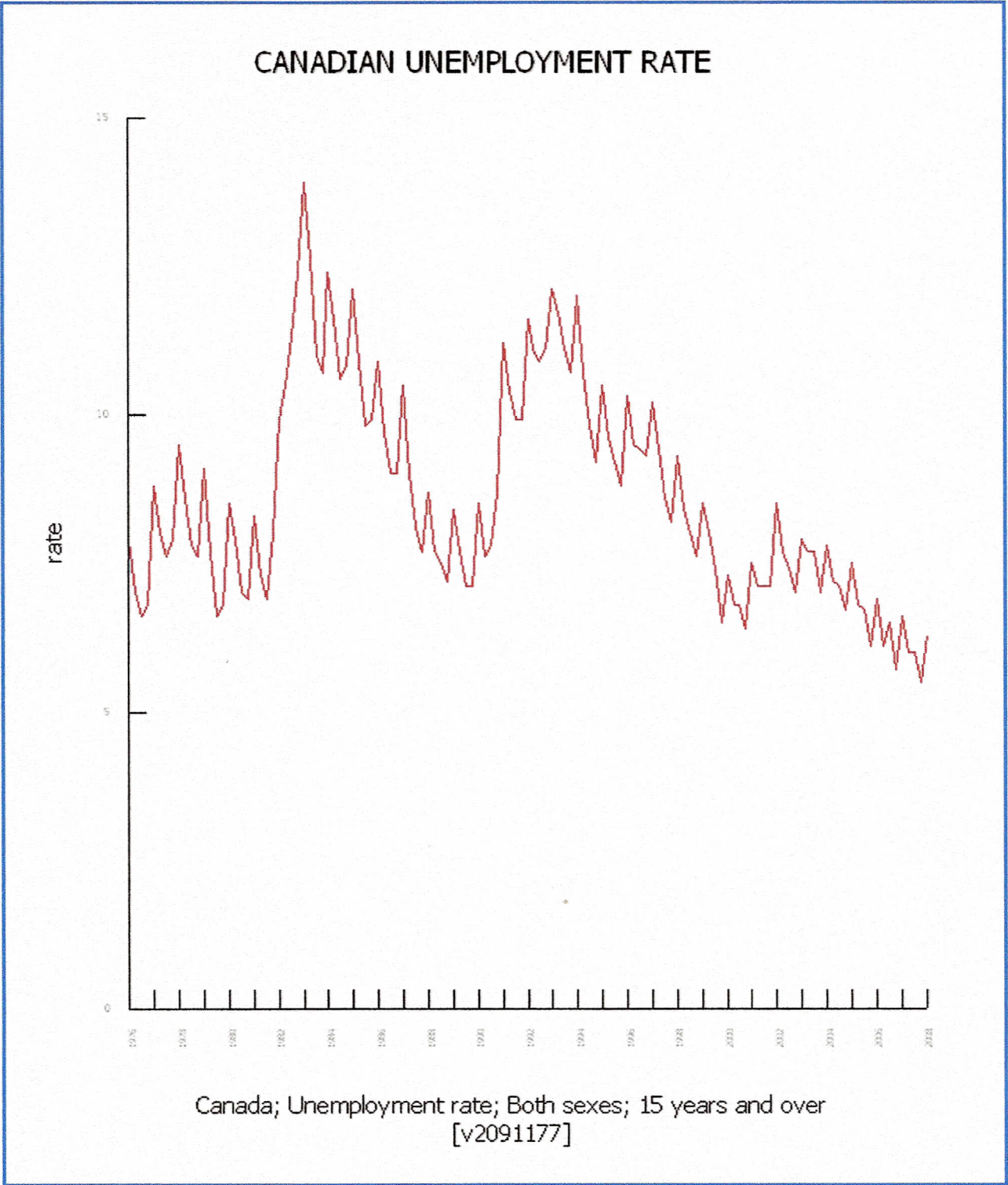
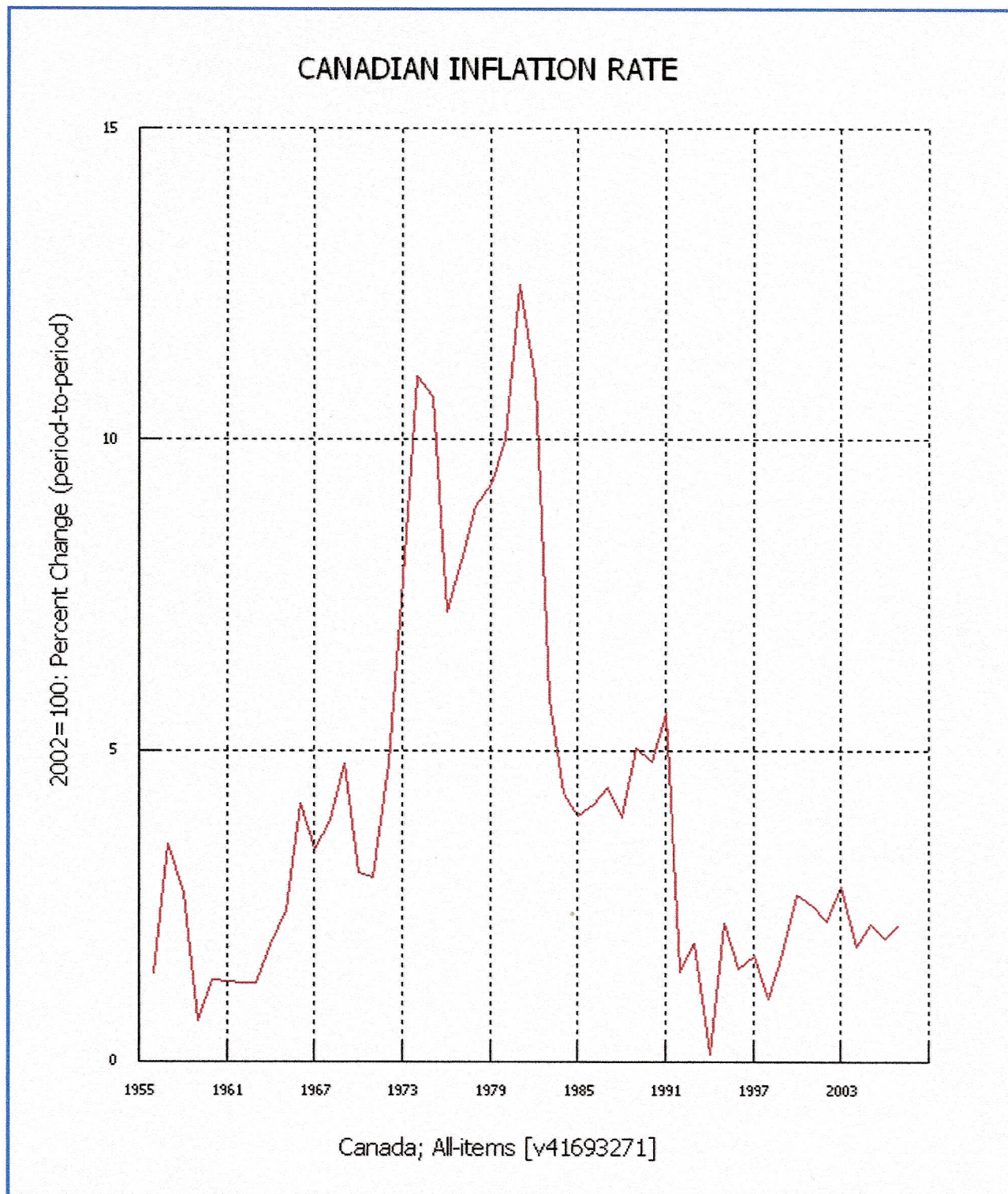


FIGURE 5.9 Growth Rates around the World, 1960–2000

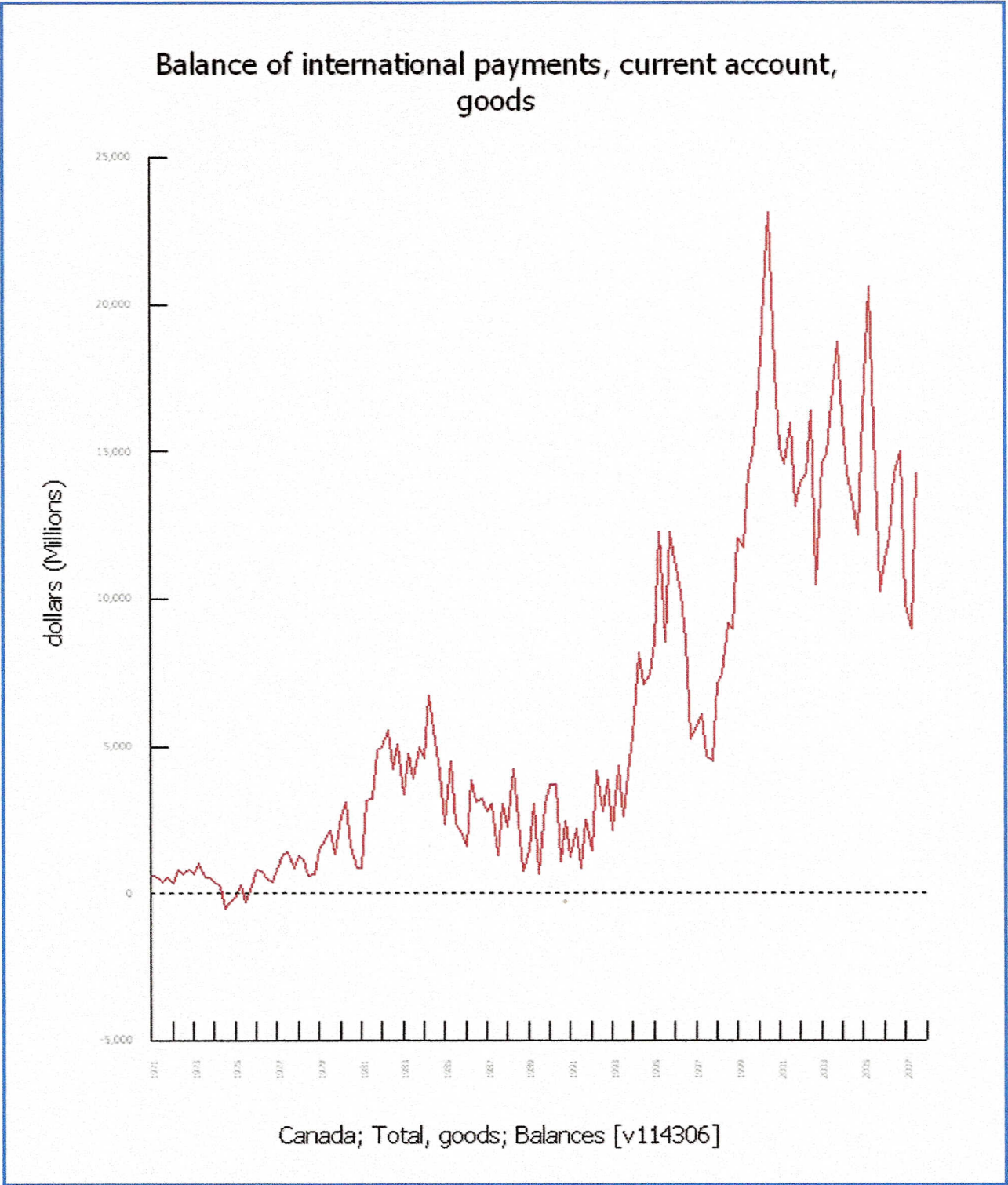
Macroeconomics, Charles I. Jones
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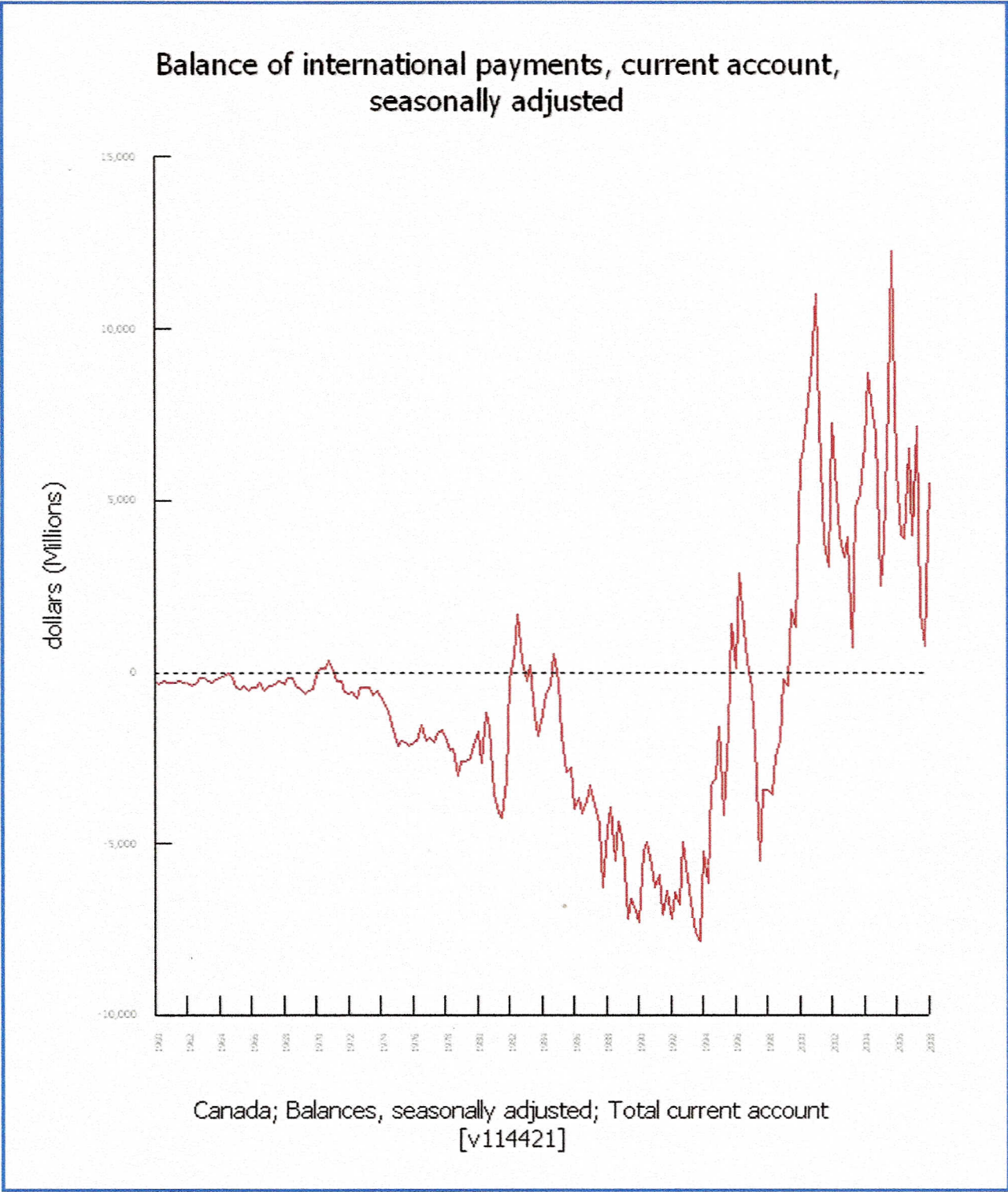
Source: Statistics Canada, CANSIM table 282-0001.



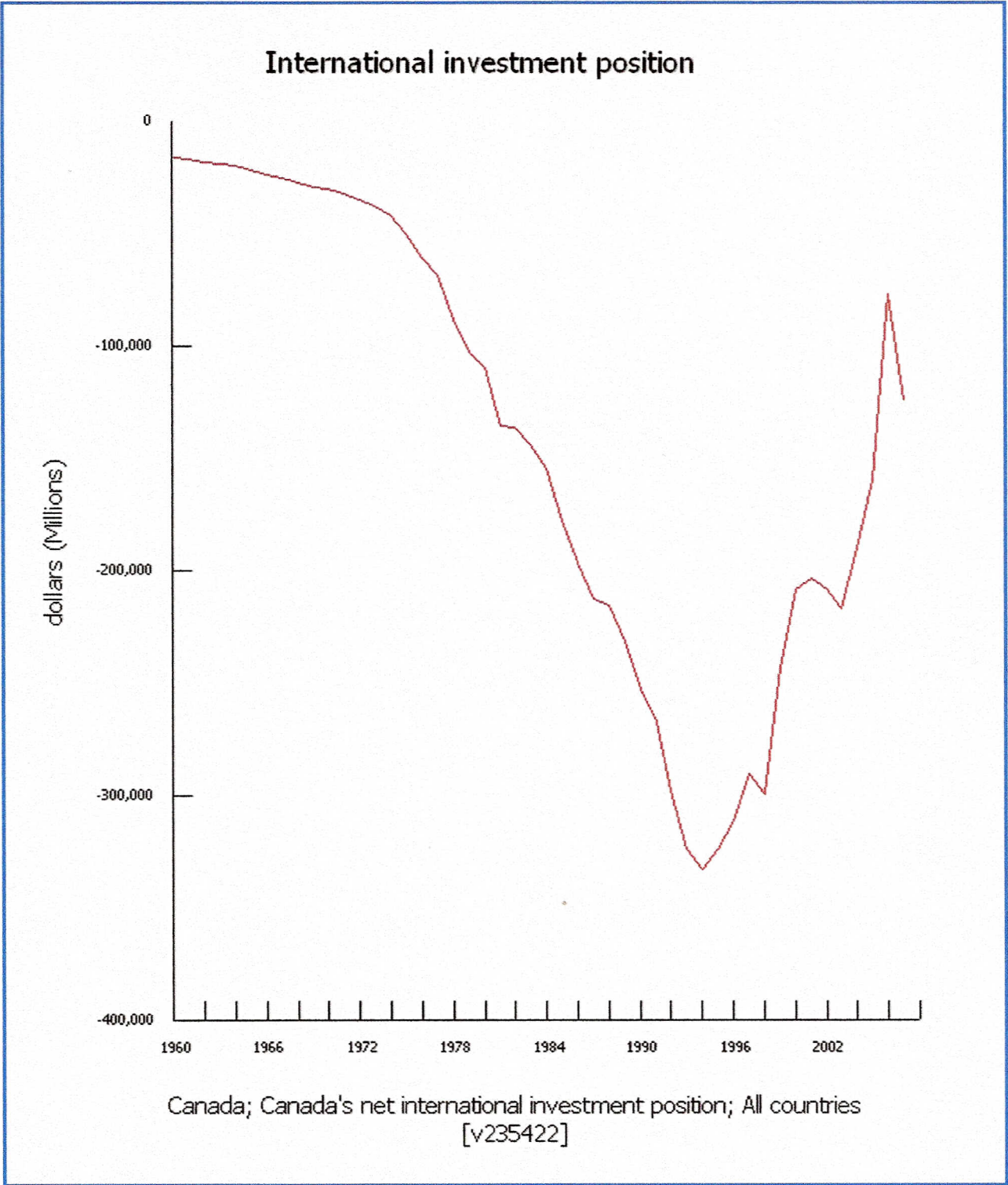
Source: Statistics Canada, CANSIM table 326-0021.



Source: Statistics Canada, CANSIM table 376-0007.



Source: Statistics Canada, CANSIM table 376-0005.



Source: Statistics Canada, CANSIM table 376-0037.

U.S./Canadian Exchange Rate: U.S \$ per Can \$



FIGURE 13.1

THE PHILLIPS CURVE AND THE CANADIAN ECONOMY DURING THE 1960S

During the 1960s, Canadian rates of inflation seemed to lie along a Phillips curve. Inflation rose and unemployment fell fairly steadily during this decade, and policymakers had apparently decided to live with higher inflation in order to reduce unemployment.

Source: Adapted from the following: Unemployment rate: *Historical Statistics of Canada*, Series D233; Inflation rate, 1960–61: Calculated using GNP deflator, *Historical Statistics of Canada*, Series K17; 1961–69: Calculated using GDP deflator, Statistics Canada CANSIM II, series v1997756.

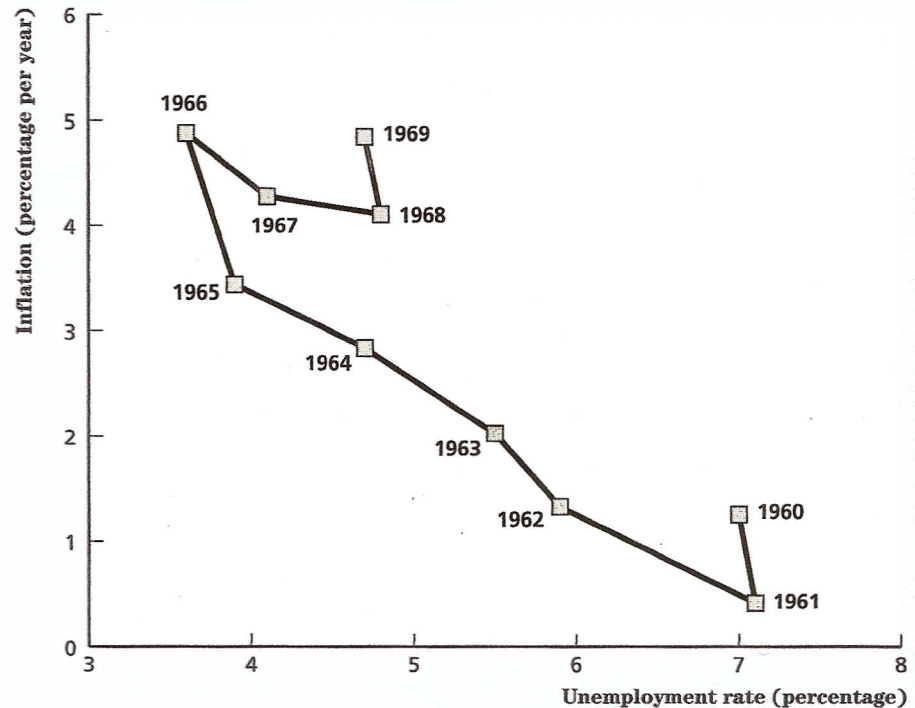
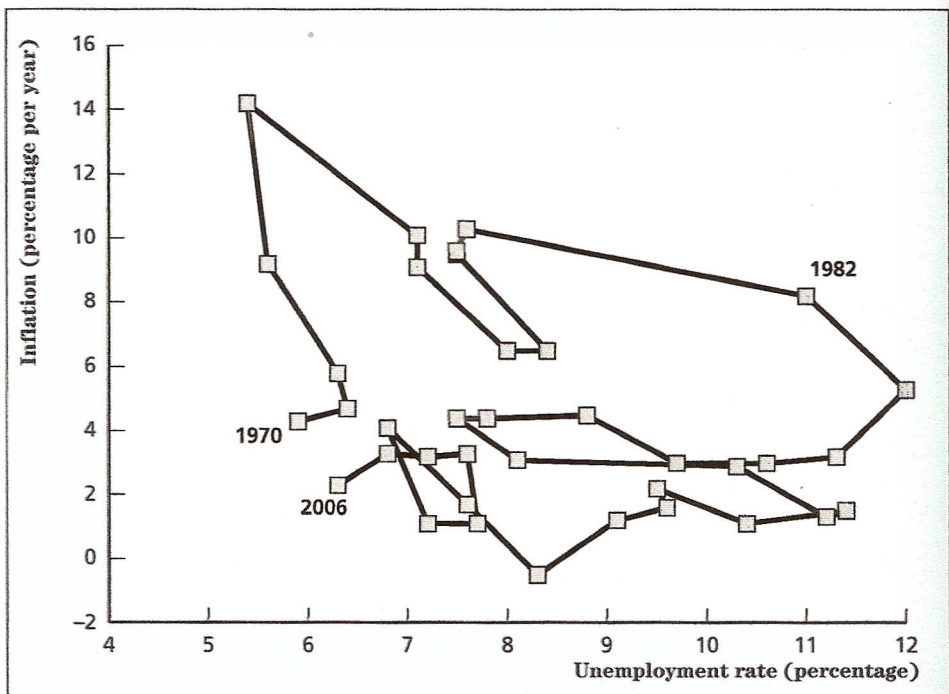


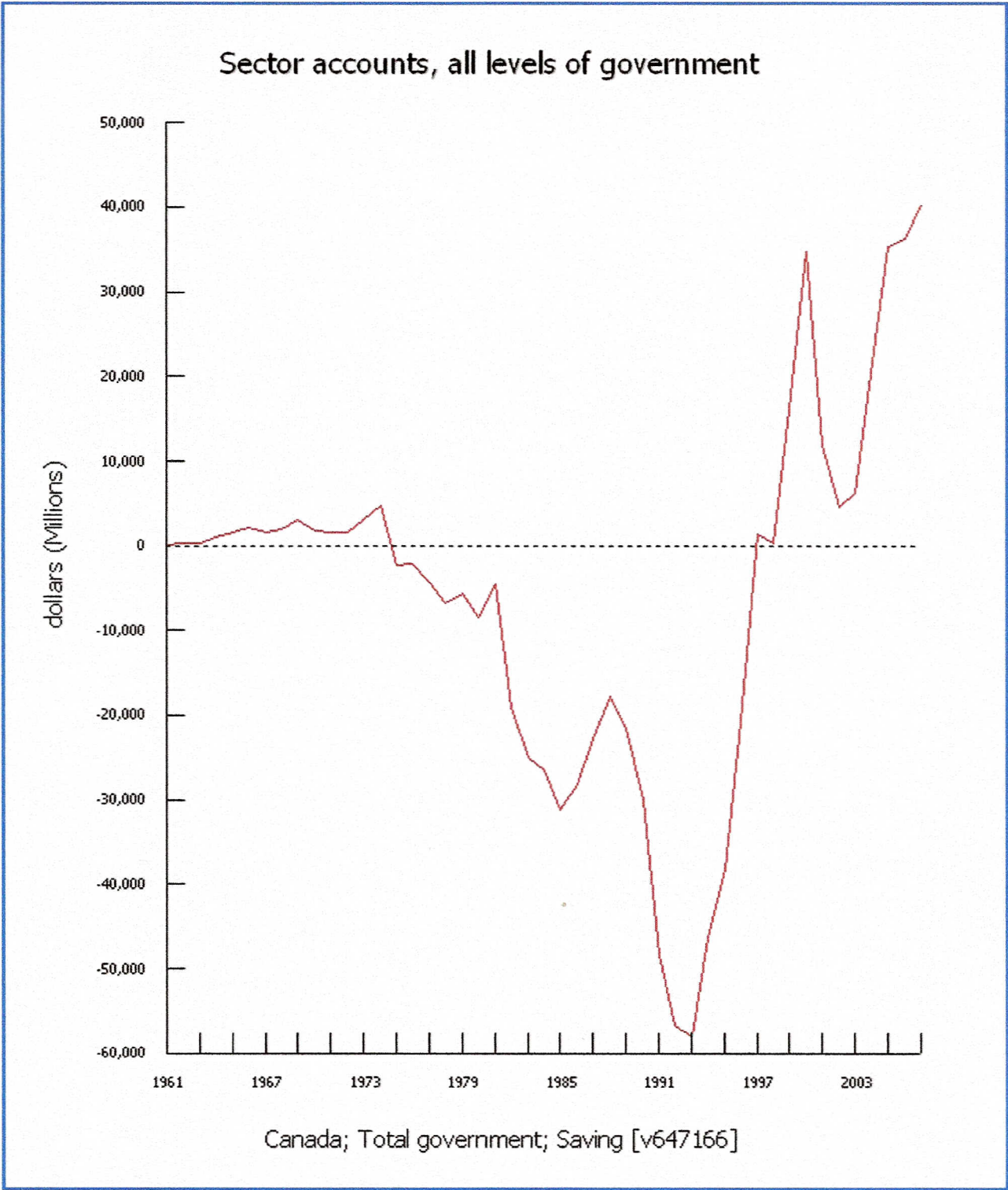
FIGURE 13.2

INFLATION AND UNEMPLOYMENT IN CANADA, 1970–2006

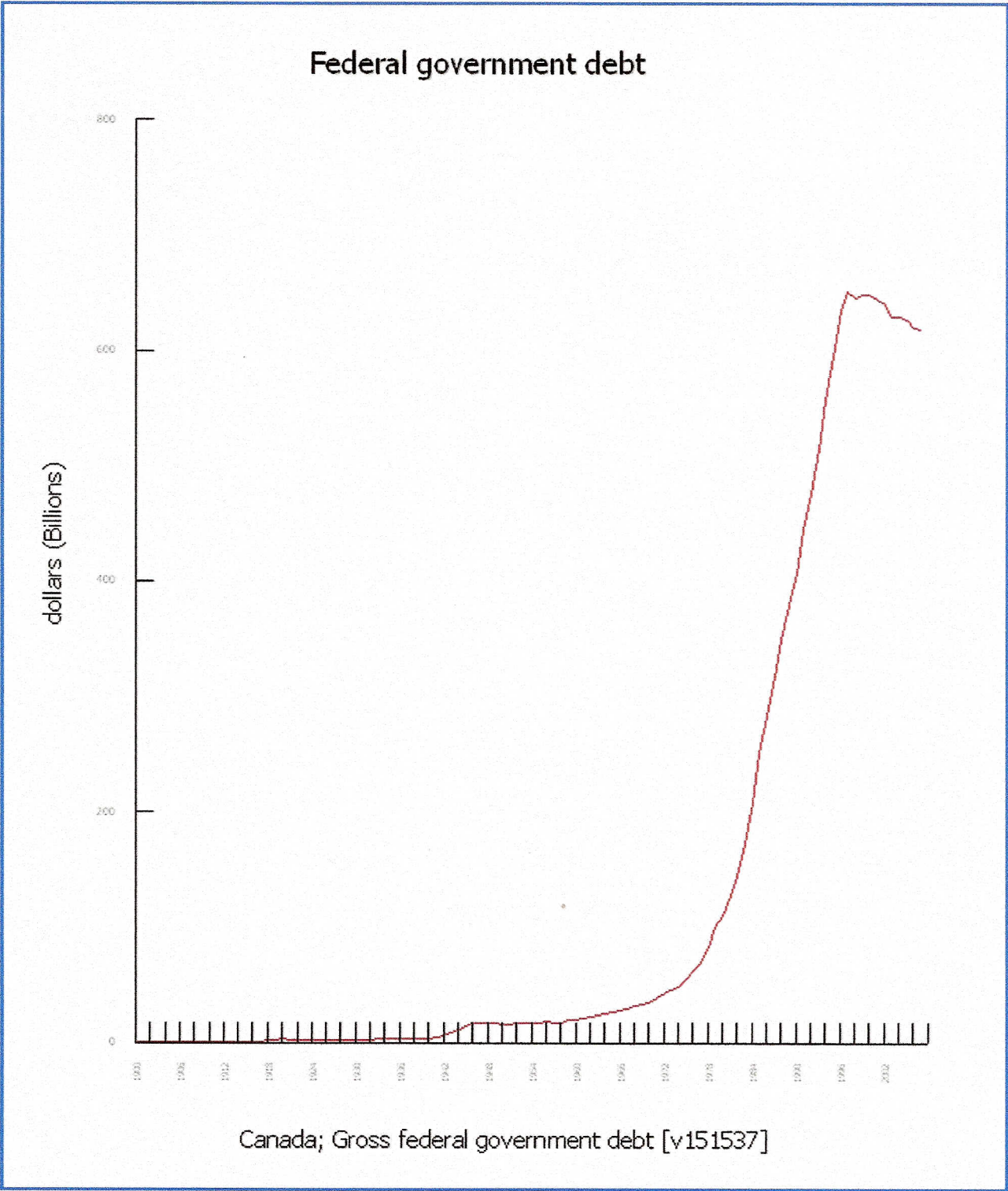
The figure shows the combinations of inflation and unemployment experienced in Canada each year from 1970 to 2006. Unlike the situation during the 1960s (see Figure 13.1), after 1970, the relationship between inflation and unemployment seemed to change from what it had been in the 1960s.

Source: Adapted from the following: Unemployment rate, 1970–75: *Historical Statistics of Canada*, Series D233; 1976–2006: Statistics Canada CANSIM II, series v2461224; Inflation rate: Calculated using GDP deflator, Statistics Canada CANSIM II, series v1997756.





Source: Statistics Canada, CANSIM table 380-0022.



Source: Statistics Canada, CANSIM table 385-0010.

These figures raise the following questions:

- 1.) What are the sources of economic growth?
- 2.) Why does growth fluctuate?
- 3.) Can economic policies enhance growth and moderate fluctuations?
- 4.) Why has the price level increased over time?
- 5.) Why has inflation come down over the past decade?
- 6.) Why is there unemployment?
- 7.) Is Canadian unemployment “too high”?
- 8.) What can the government do about unemployment?
- 9.) Why has the Canadian dollar appreciated recently?
- 10.) Does a strong currency help or hurt the economy?
- 11.) What determines the trade balance?
- 12.) Are trade deficits bad for the economy?
- 13.) Is government debt a burden on future generations?