Econ 305

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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)
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Economics

Microeconomics
Households
Firms
Industries
Pricing & Strategy

Macroeconomics
Economic Growth
Business Cycles
Income Distribution

6 Key Variables
1.) GDP
2.) Unemployment
3.) Inflation
4.) Interest Rates
5.) Exchange Rates
6.) Trade Balance

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

Exogenous Variables → Model → Endogenous Variables

Short-Run
Technology, Factor Supplies, and wages are fixed.

Long-Run
Technology and Factor Supplies are fixed.

Really Long-Run
Everything can 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

[Diagram showing a supply and demand curve with AS-Classical and AS-Keynesian labels]
Canada; 2002 constant prices; Seasonally adjusted at annual rates;
Gross Domest...

Source: Statistics Canada, CANSIM table 380-0002.
REAL GDP GROWTH RATE

Source: Statistics Canada, CANSIM table 380-0002.
Multifactor productivity in the aggregate business sector and major sub-sectors

Source: Statistics Canada, CANSIM table 383-0021.
FIGURE 5.8 Growth Rates in the OECD, 1960–2000
FIGURE 5.9 Growth Rates around the World, 1960–2000
Canada; Unemployment rate; Both sexes; 15 years and over
[v2091177]

Source: Statistics Canada, CANSIM table 282-0001.
Source: Statistics Canada, CANSIM table 326-0021.
Balance of international payments, current account, goods

Source: Statistics Canada, CANSIM table 376-0007.
Balance of international payments, current account, seasonally adjusted

Canada; Balances, seasonally adjusted; Total current account [v114421]

Source: Statistics Canada, CANSIM table 376-0005.
International investment position

Source: Statistics Canada, CANSIM table 376-0037.
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.


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: Statistics Canada, CANSIM table 380-0022.
Federal government debt

Canada; Gross federal government debt [v151537]

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?