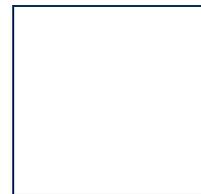
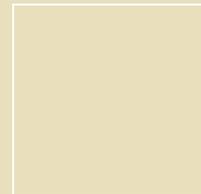


Macroeconomics

John Weinberg

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THE FEDERAL RESERVE BANK OF RICHMOND

RICHMOND ■ BALTIMORE ■ CHARLOTTE



Macroeconomics

Microeconomists are wrong about specific things, while macroeconomists are wrong about things in general.





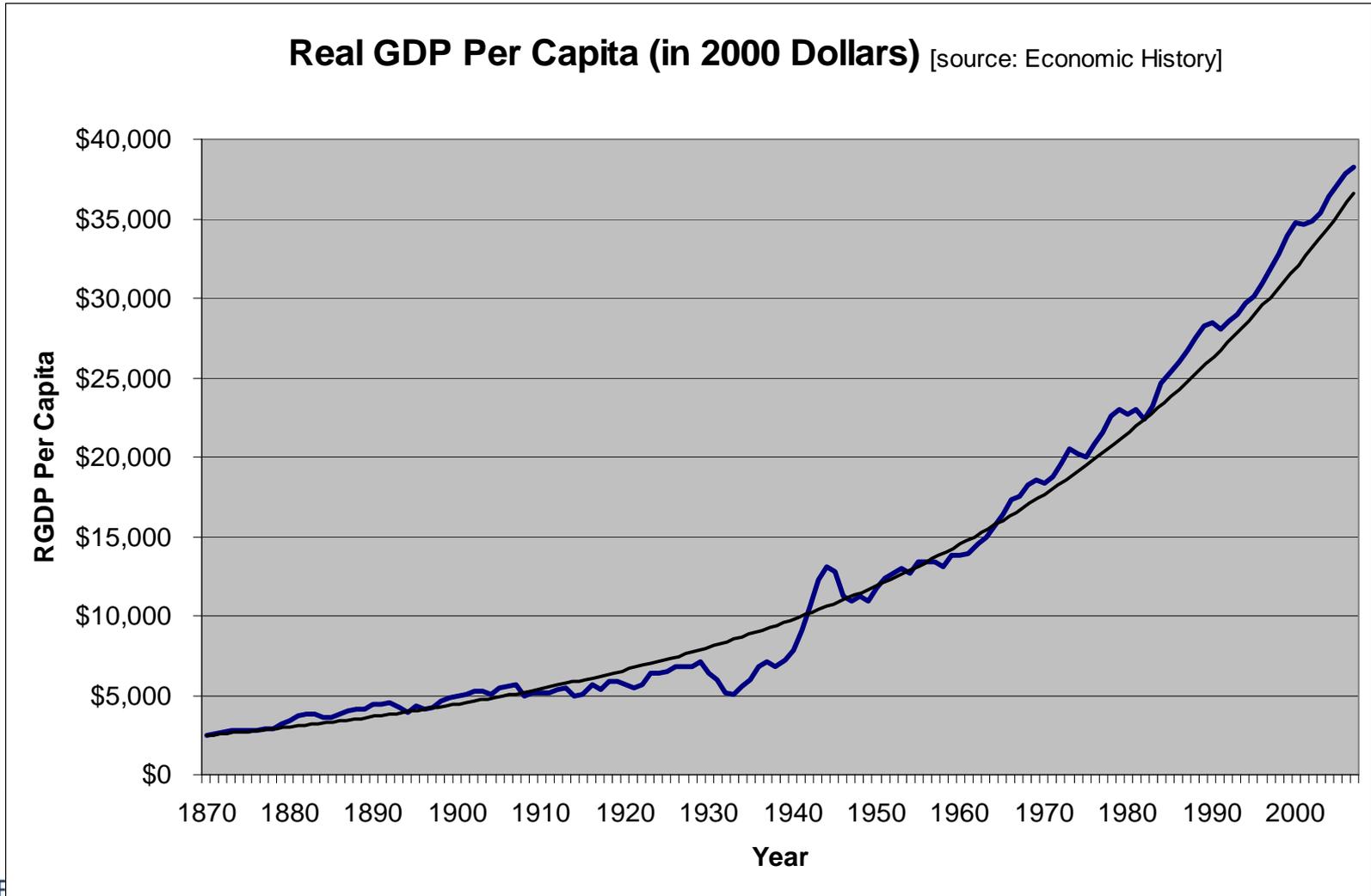
Macroeconomics

- Explaining the behavior, over time, of the overall economy, as measured by a fairly standard set of *aggregate* variables
 - GDP and its components
 - Employment, Unemployment
 - Prices, as measured by such indexes as the CPI
 - Interest rates

Economic Growth over the Long Run

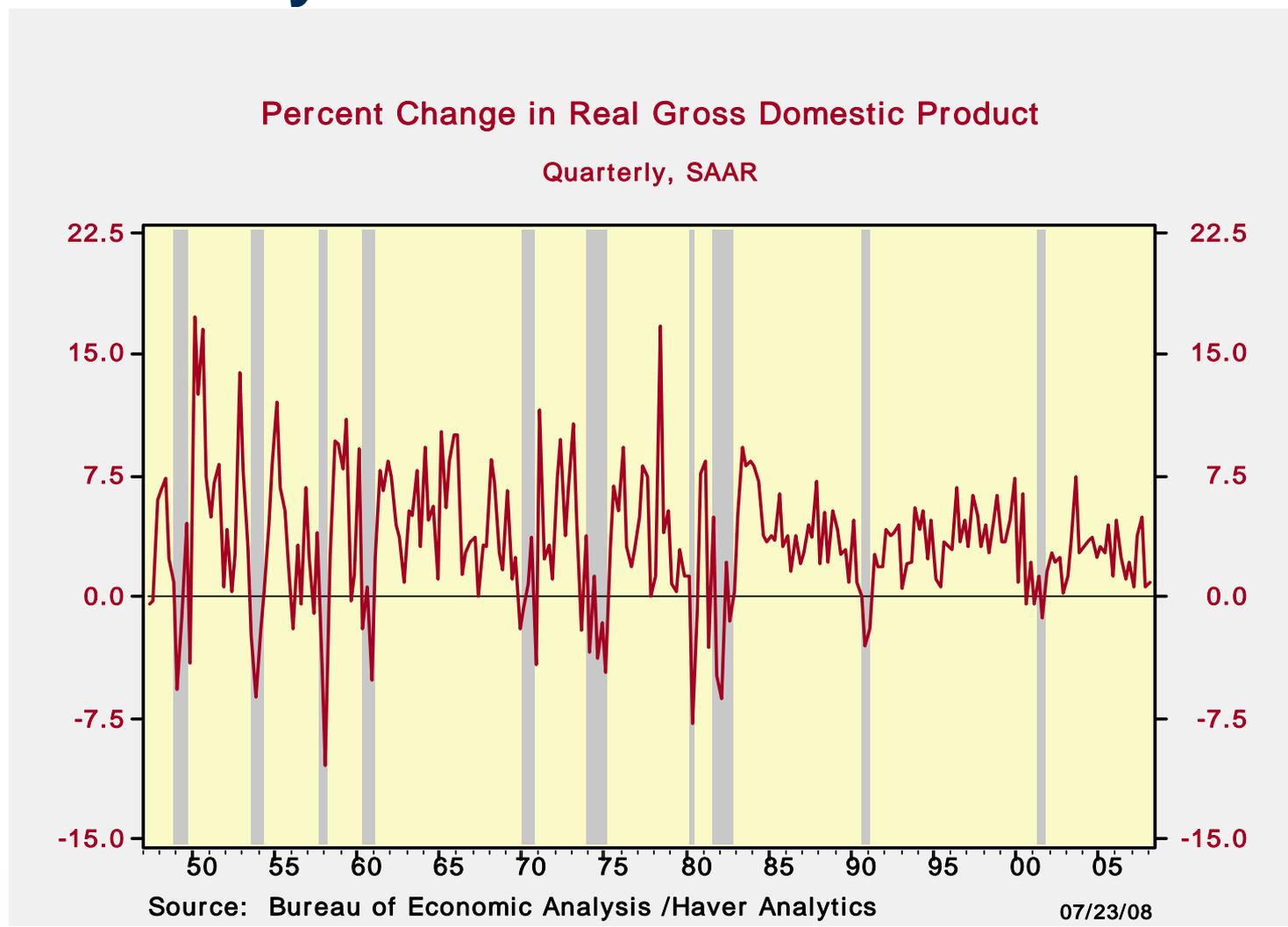


Real GDP Per Capita (in 2000 Dollars) [source: Economic History]



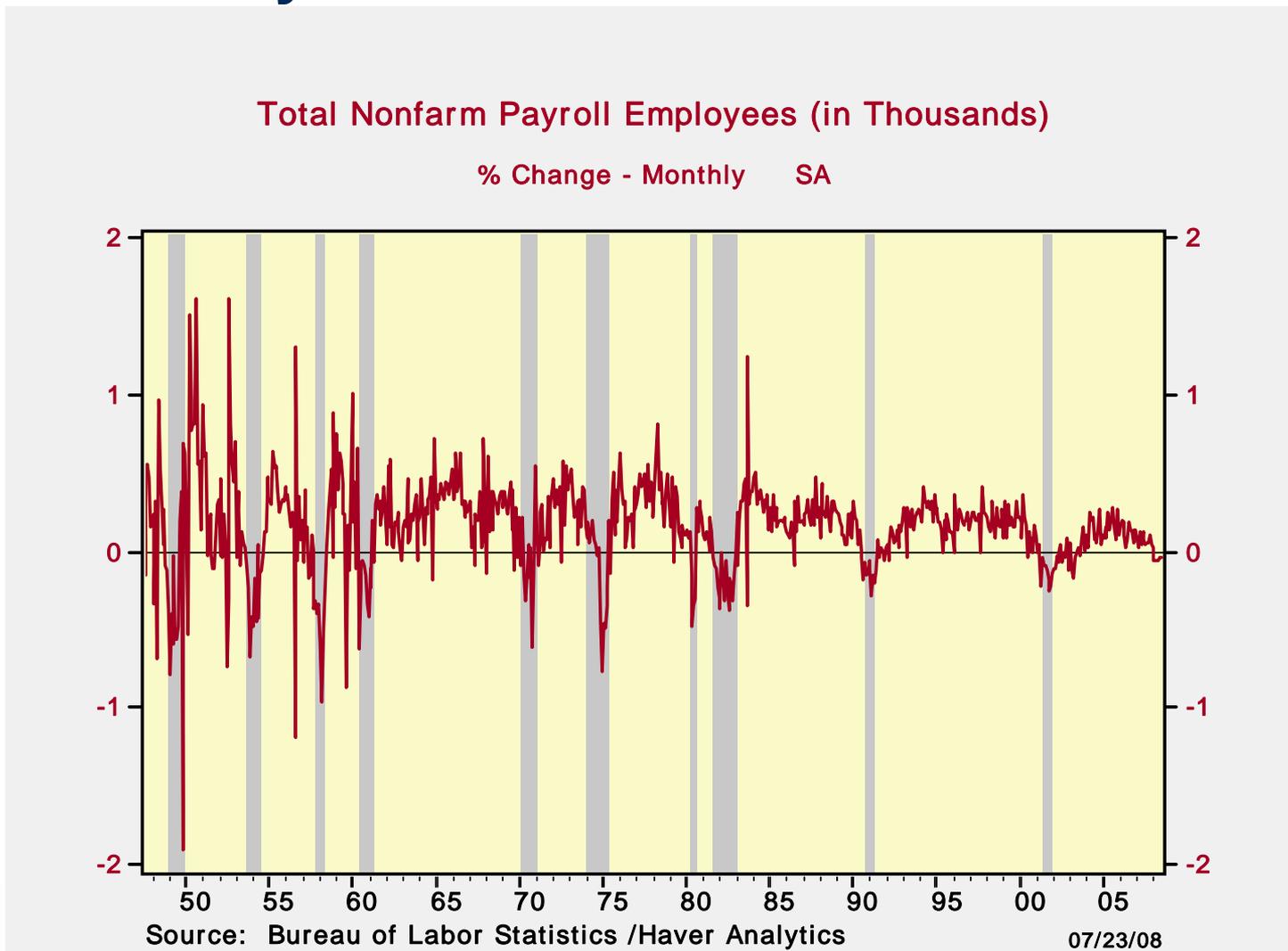


Business Cycles





Business Cycles – Labor Markets

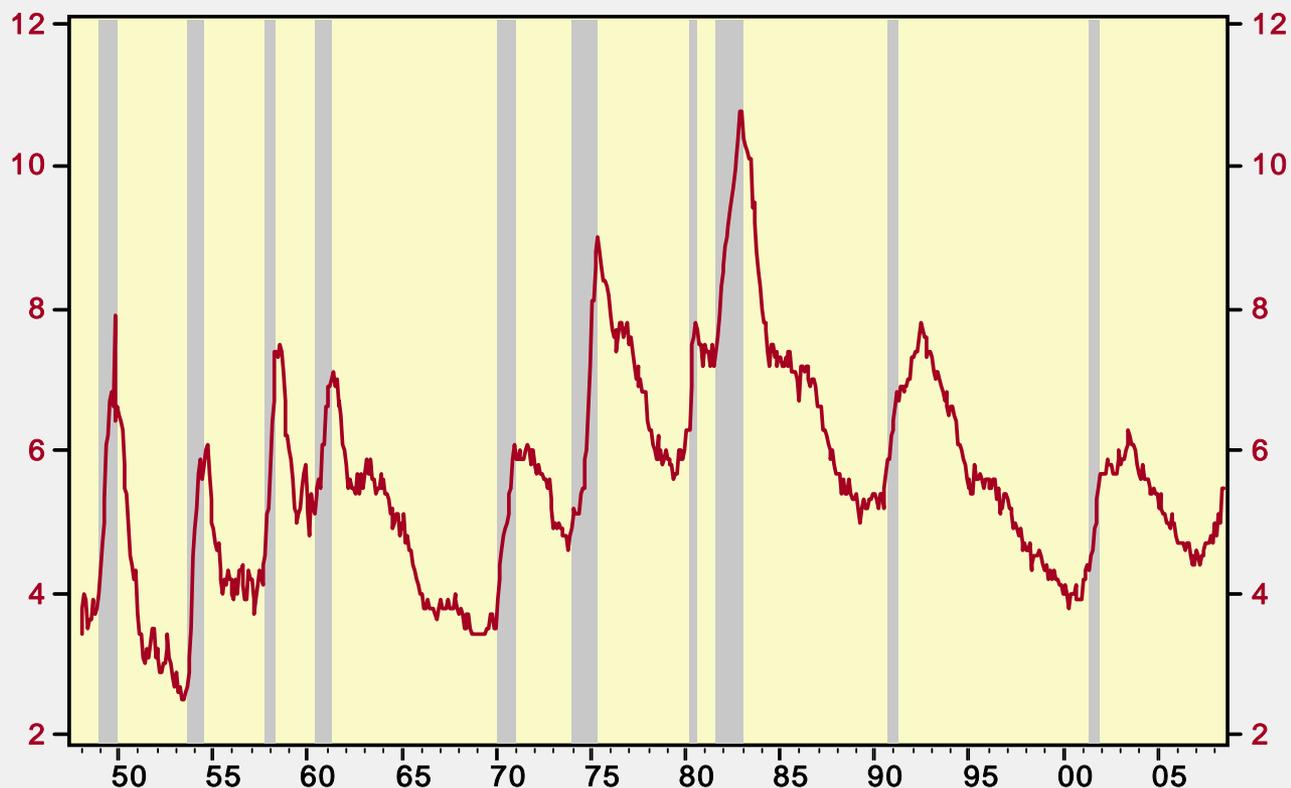




Business Cycles – Labor Markets

Civilian Unemployment Rate: 16 yr +

SA, % Change Monthly

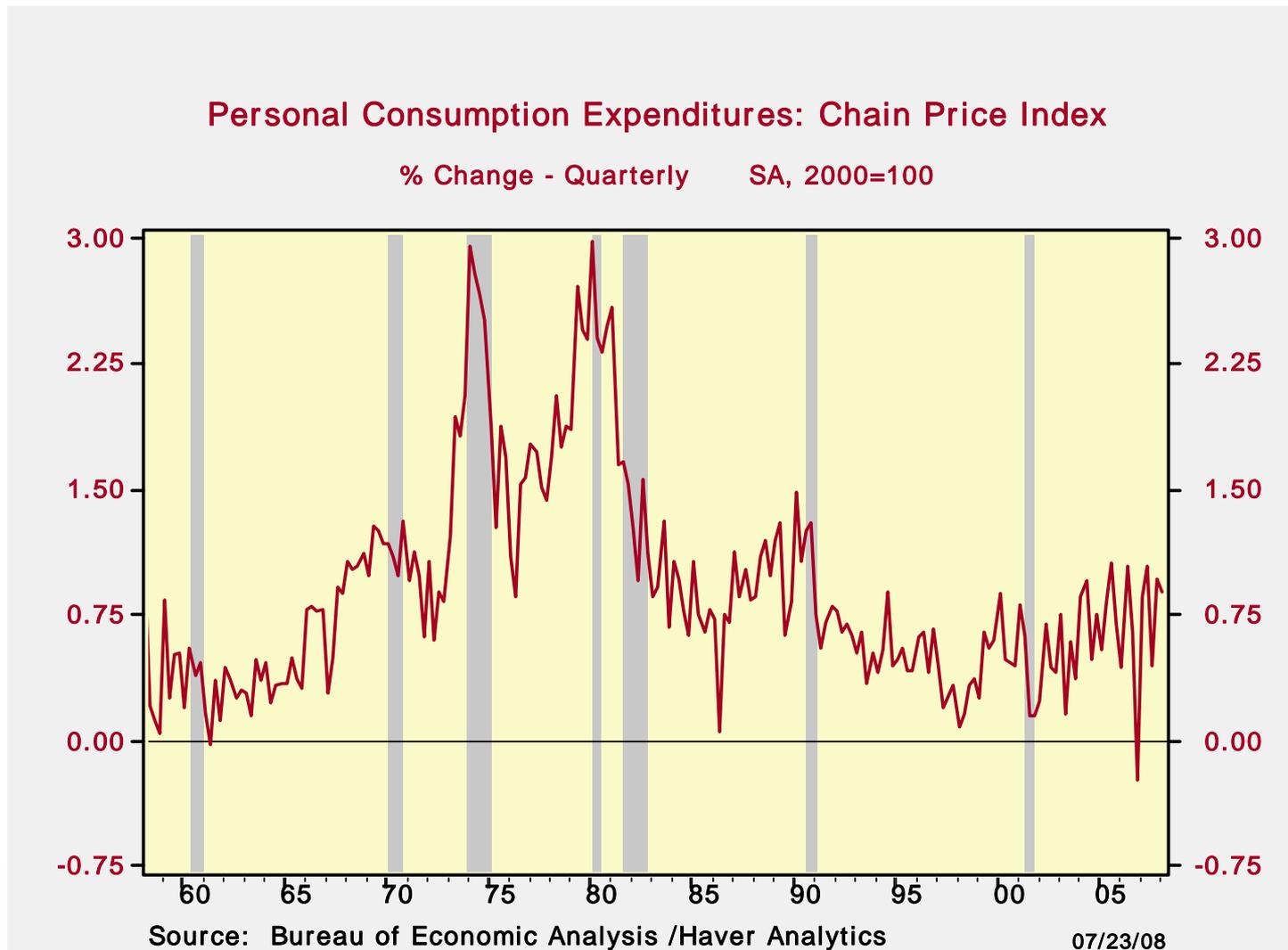


Source: Bureau of Labor Statistics /Haver Analytics

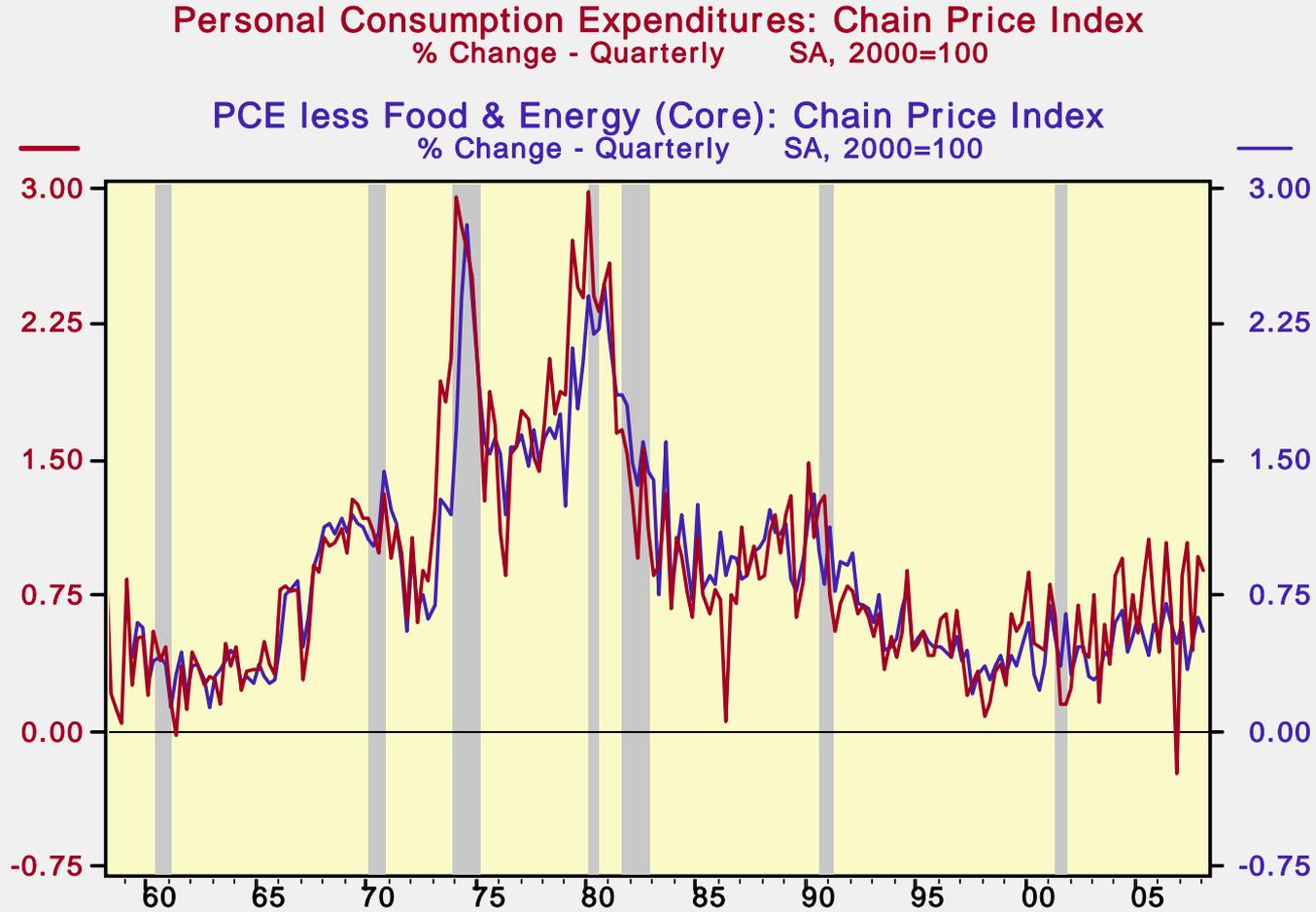
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Inflation



Inflation – Taking Out Food and Energy?

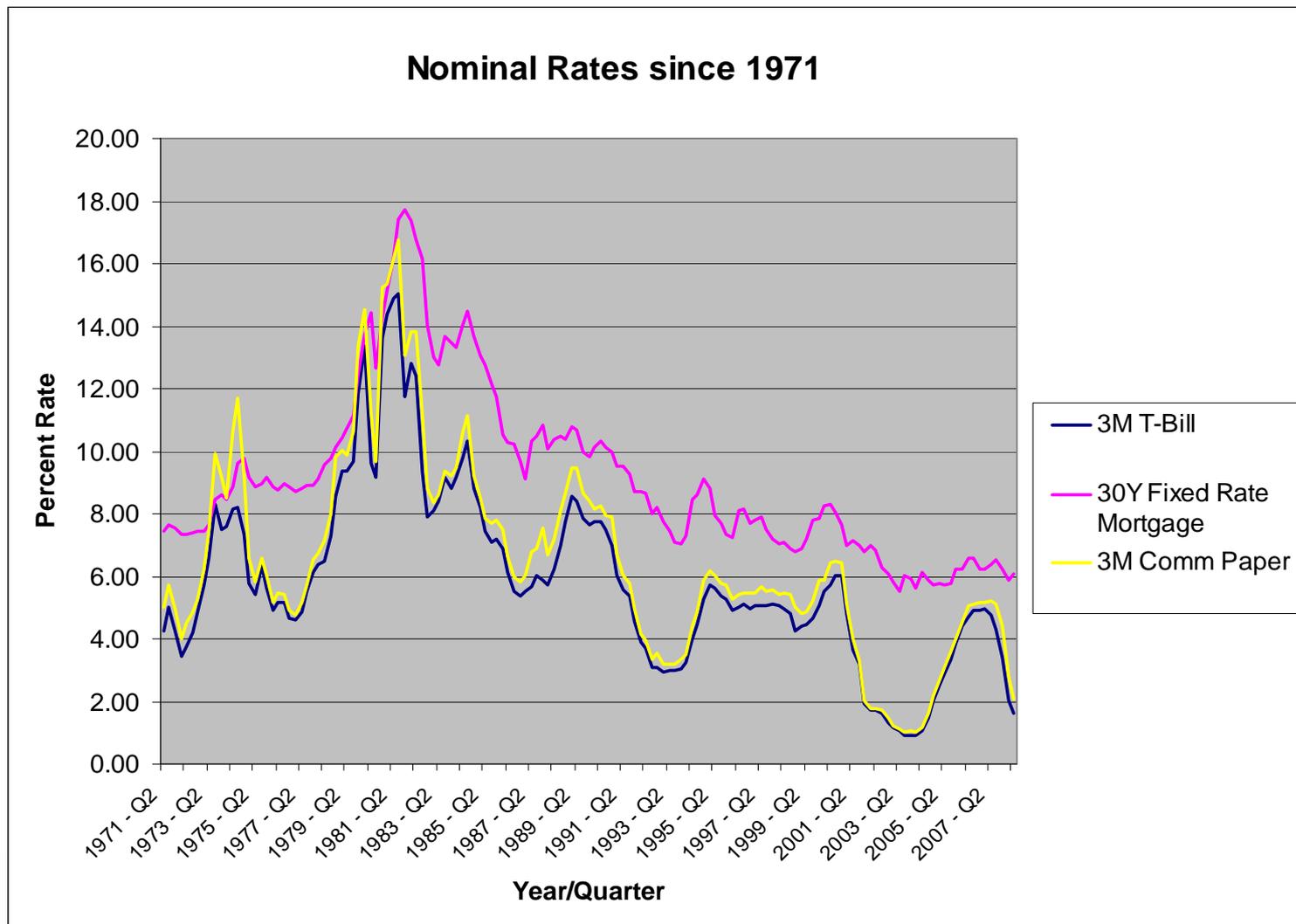


Source: Bureau of Economic Analysis /Haver Analytics

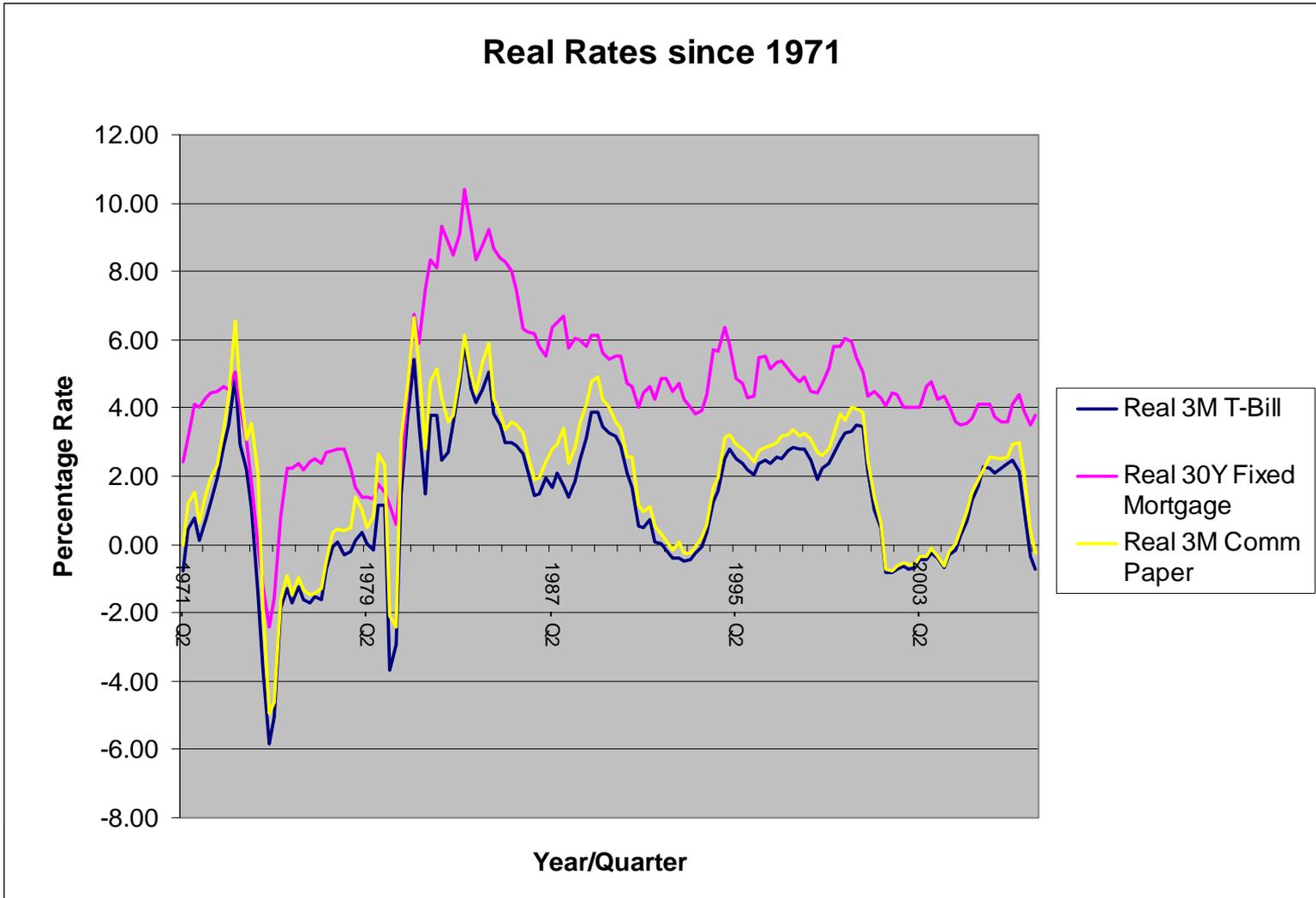
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Interest Rates



Real Interest Rates





How does a market economy determine output, employment, prices and interest rates?

- a) It's really complicated
- b) It's really simple
- c) It's all supply and demand
- d) All of the above





Supply

- Labor Force
- Capital Stock
- Natural Resources
- Productivity



Demand

- Consumption vs savings (consumption now vs. consumption in the future)
- Investment (increasing the future stock of capital)
- Government expenditures
- Net demand for goods from overseas

The first two involve tradeoffs between the present and the future – real interest rates.



What determines the price level and inflation?

- In the short-run: lots of things
- In the long-run: monetary policy

By way of contrast, monetary policy can affect real variables in the short-run but has very little effect in the long run.





Monetary Policy

- Targeting a short-term interest rate
- Keeping the real rate in line with movements in supply and demand
- The consequences of “missing”
- Responding if inflation is too high or too low
- The importance of people’s expectations