INSTRUCTOR'S RESOURCE GUIDE

MACROECONOMICS

UNDERSTANDING THE WEALTH OF NATIONS

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Instructor's Resource Guide

TO ACCOMPANY

MACROECONOMICS
Understanding the Wealth of Nations

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PREFACE

INTRODUCTION

Unlike most instructors' manuals, the purpose of this text is not to tell you how to conduct a course based on Miles and Scott, but largely to supply further relevant material that could be incorporated in that course. That material consists of mainly short case studies and relevant background that could form the basis of handouts; be added to slides; or simply mentioned *en passant* during a lecture. In keeping with the Miles and Scott work, there is little theoretical material in this manual - most of the information is of a practical nature.

STRUCTURE

The manual follows Miles and Scott on a chapter-by-chapter basis and is presented in sections.

• Introduction.	A brief outline of the special characteristics of the chapter.
• Key Concepts.	Bullet points of the main concepts covered therein.
• Alternative Routes through the Chapter.	Some suggestions of how to structure lectures around the chapter.
• Chapter Guide.	A section-by-section outline of relevant further information.
• Case Study.	A case study related to the chapter.
• Background Material.	Shorter sections of material linked to the chapter content.

ANSWERS TO ANALYTICAL QUESTIONS

The second part of the book gives 'model' answers to the end-of-chapter analytical questions that appear in Miles and Scott.

TEACHING TIPS

Students like to talk and debate important economic issues. Clearly, getting them to do so is a useful way of familiarizing them with the discipline of economics. A means of achieving this that has been widely successful is occasionally to devote, say, 45 minutes of lecture time to organized debate. Select two students to propose a motion and two to oppose, under your chairmanship. Give 10 minutes to each side and say, 20 minutes for questions and contributions from other students. Take a vote and then invite the entire group to write up the debate evenhandedly and, if appropriate, offer marks for the work.

Examples of suitable topics for debate include
- ICT - revolution or innovation?
- Low unemployment insurance in US and UK labor markets simply reduces the amount of time people can spend searching for the right job. As a result they are less economically efficient than those of continental Europe.
- Governments should face restrictions on their discretionary use of fiscal policy.
- Price stability - just say no.
- Currency crashes are inevitably the result of inappropriate policy.
- Are business cycles good or bad?
- Trade restrictions on agricultural goods are in the national interest.
- Developing countries should resist globalization.

CHAPTER 1: WHAT IS MACROECONOMICS?

INTRODUCTION

As might be expected, this first chapter sets the scene for the whole textbook and attempts to motivate the study of macroeconomics. Although there is probably only enough material here for about fifteen minutes of lecture, it obviously needs to be well delivered.

KEY CONCEPTS

- ❑ The allocation of scarce resources
- ❑ Micro and Macro economics.
- ❑ Aggregate and firm-specific uncertainty.

Teaching Tips

ALTERNATIVE ROUTES THROUGH THE CHAPTER

This chapter is likely to form only the first part of a lecture and should probably be combined with the material in Chapter 2. The chapter can be tailored to your audience. For example, if the students are mainly working in business, give examples of how macroeconomics influences business decisions. Think about touching on the key macroeconomic issues in the news at the time e.g. tax policy, the business cycle etc.

CHAPTER GUIDE

1.1 What is Macroeconomics About? It is a good idea to contrast a recent short-term macroeconomic issue (like the latest change in monetary policy) with the longer-term issue of growth and inequality between regions.

The Background Material below gives more information on comparative world growth since 1500.

1.2 But What about that Definition? Milton Friedman's favorite description of the wonders of the price mechanism (the invisible hand) is "I Pencil" by Leonard Reed (see www.fee.org/about/ipencil.html). However, business students may find it a little patronizing.

1.3 The Difference between Macro and Microeconomics. Like most distinctions, this one is somewhat blurred around the edges. It may be worth underlining that good macroeconomics tend to have strong microfoundations (i.e. based on microeconomic analysis and built up to macroeconomic behavior).

1.4 Why Should People Interested in Business Study Macroeconomics? There are many good examples of how macro economic analysis can help solve real world problems. The case study below gives a lighter example; how macroeconomics can help to predict the next U.S. president.

Additional Resources

CASE STUDY: ECONOMIC EVENTS AND PRESIDENTIAL VOTING

Ray Fair's model of presidential voting is a simple example of how important the state of the economy is to political events.

Introduction

Not only is economic policy a key issue in presidential politics, the state of the economy is a key determinant of the outcome of the election. To illustrate this point, Professor Ray Fair has devised a simple model of presidential voting based on macroeconomic and political variables. The model correctly predicted the outcome of 20 out of 22 elections since 1916 (Nixon-Kennedy 1960 and Bush-Clinton 1992 were its two failures). Its prediction for the 2000 election (made in 1998) was "the Republicans have an edge".

The Model

Fair's model considers the following questions in respect of each presidential candidate

> ➤ Is your party already in power and has the economy been doing well in the last three quarters? – Positive impact
> ➤ Is your party already in power and has the economy grown 3.2% p.a. or more in the last 15 quarters? – Positive impact.
> ➤ Is your party already in power and has inflation been low over the last 15 quarters? – Positive impact.
> ➤ Are you an incumbent? – Positive impact.
> ➤ Is America involved in a world war? – Forget the economy.

It is perhaps troubling that such simple determinants seem to explain so many election results, particularly since short term factors - such as growth over the last 9 months - seem so important (see also "It's the economy stupid" in the Background Material for Chapter 2).

Source Fair(1998) "The Effect of Economic Events on Votes for President"
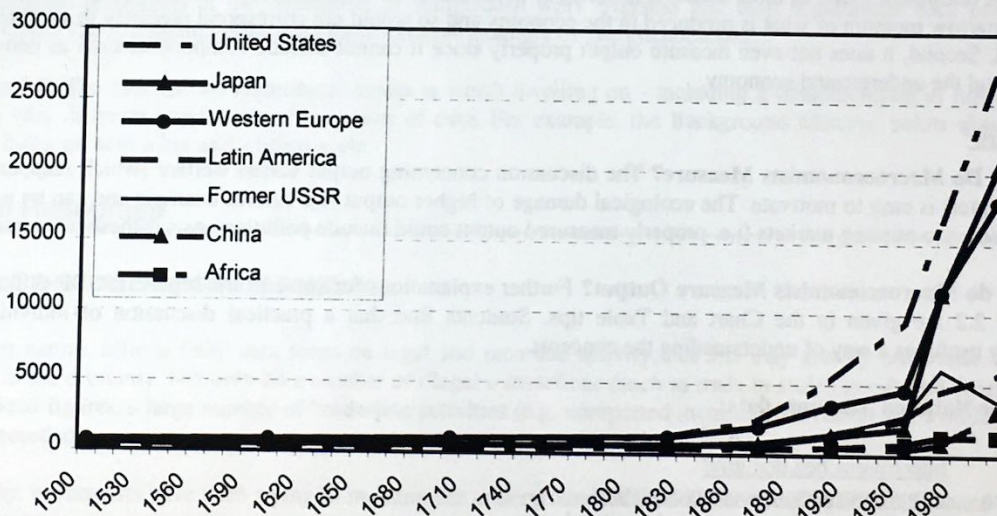*http://fairmodel.econ.yale.edu/rayfair/pdf/1998ahtm.htm*

Background Material

WORLD GROWTH

The chart below gives per capita GDP (1990 US dollars) for a number of regions. The chart can be used to raise some important economic questions

1) Why did the world economy grow so slowly before the 20th Century?
2) Why was growth concentrated in a few regions? Africa and the US had the same output per capita in 1500.
3) Is increasing inequality between countries inevitable?

GDP per capita 1500-1998 (in 1990 US dollars)

Source: OECD