

INTERMEDIATE MACROECONOMICS

INTRODUCTION

University of
Massachusetts
Amherst



What to expect from this course

- We want to understand the working of the economy *as a whole*.
- Focus on some key *aggregate* variables:
 - Output
 - Employment
 - Wages
 - Interest Rates
 - Inflation
- We will initially abstract from international trade, and then bring it in.
- A toolbox to think about the economy in a organized way.

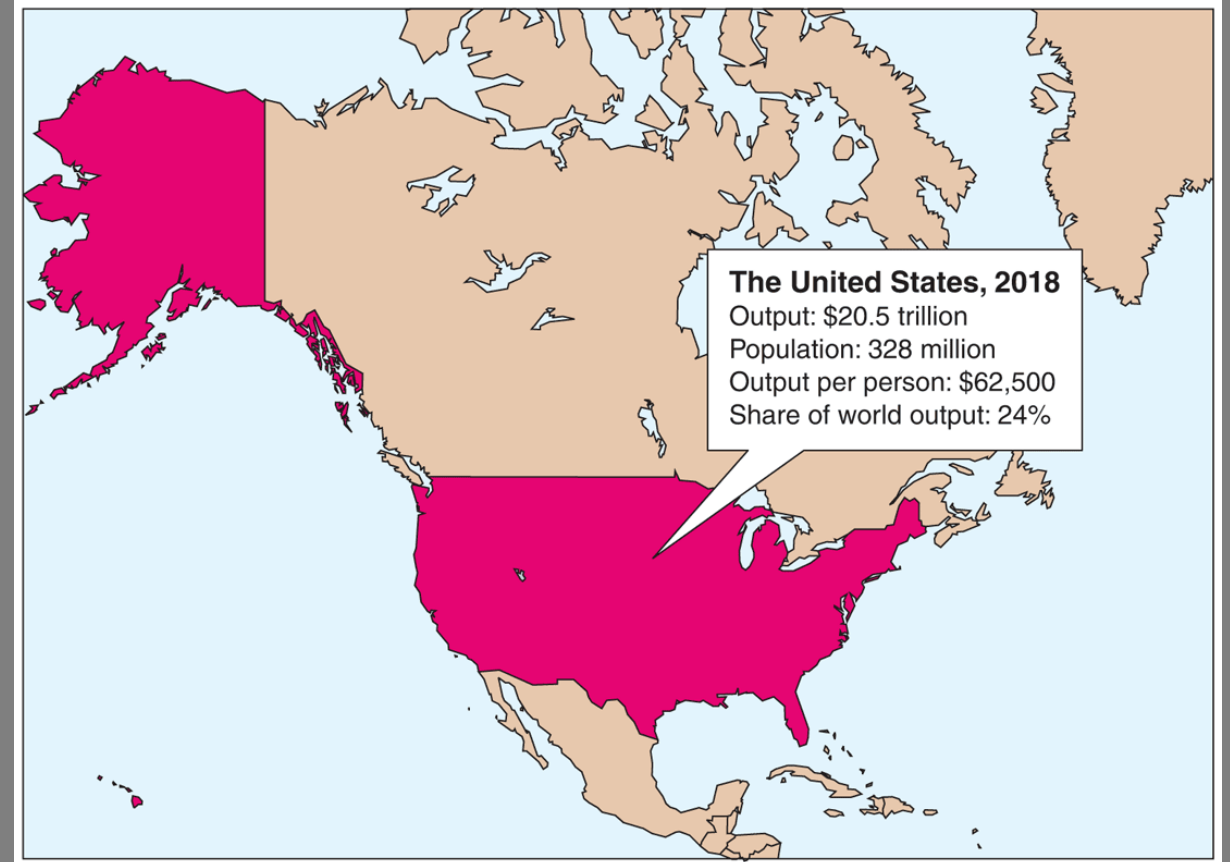
Laptop Ban

The use of laptops, tablets, smartphones and similar devices is banned in this class

Research shows that the use of laptops in class harms learning and reduces students' grades.

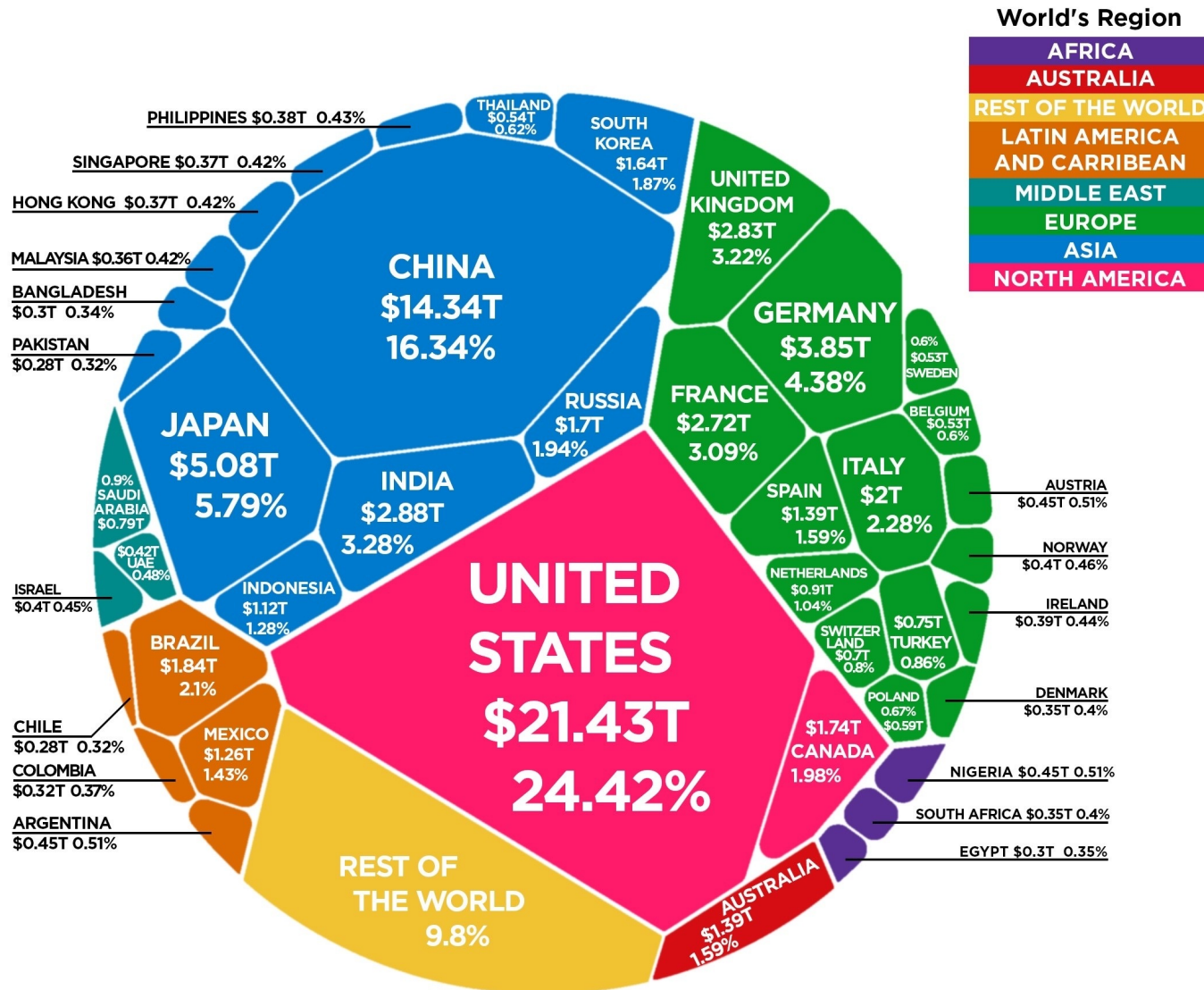


A BRIEF TOUR OF THE US ECONOMY



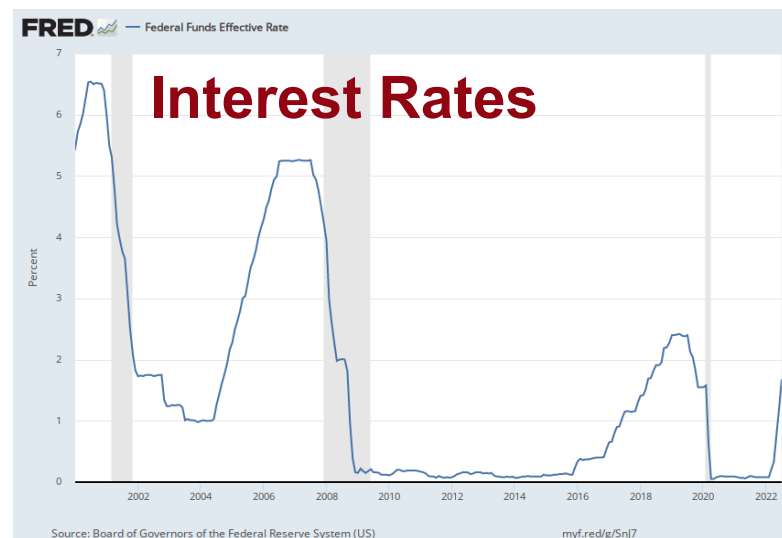
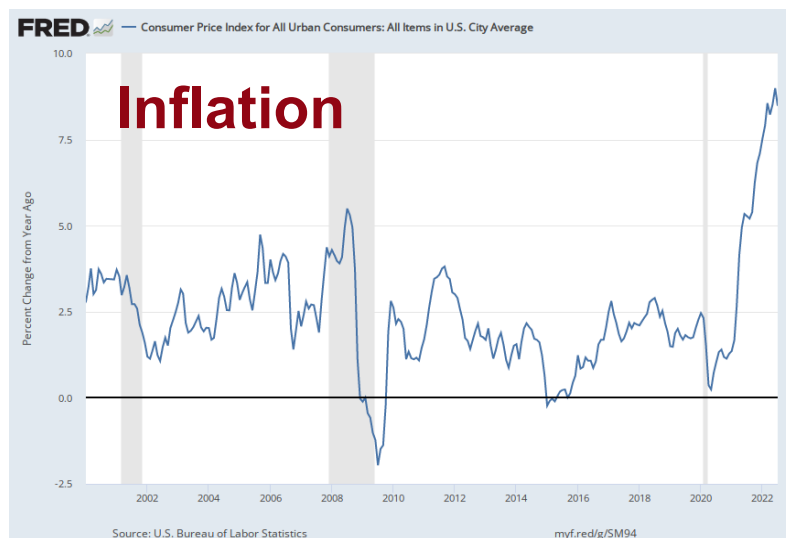
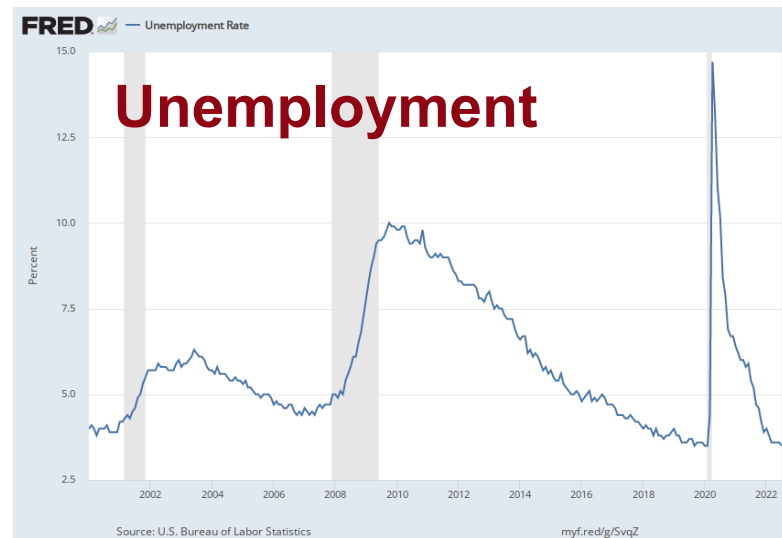
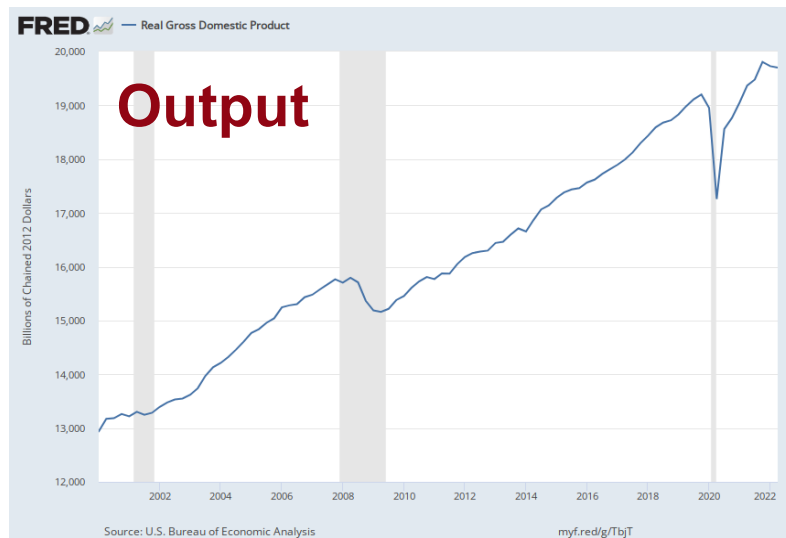
The US economy: Big, rich and unequal

Gross Domestic Product (GDP) by Country 2019



- ~4% of world population
- ~24% of world production
- GDP per capita is one of the highest...
- ...but more inequality than in other rich countries.

The US economy in the 21st century



2000-2007: steady growth but increasing inequality and stagnant wages for most people.

2008-2009: Financial Crisis & Great Recession.

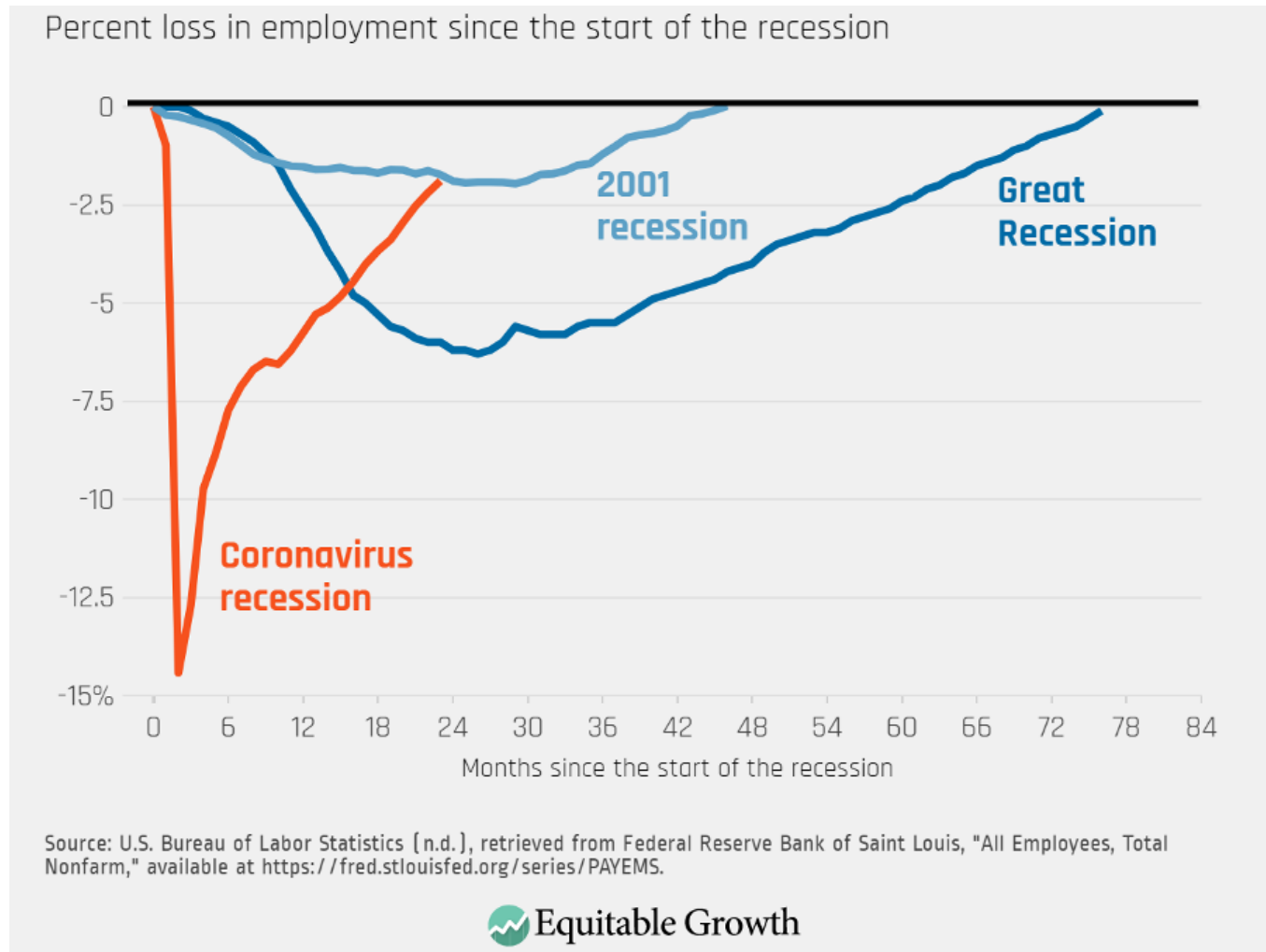
2008-2014: Slow recovery.

2015-2019: Low unemployment.

2020: The COVID-19 shock.

2021-2022: Quick recovery and the return of inflation.

The Covid-19 shock and the US economy

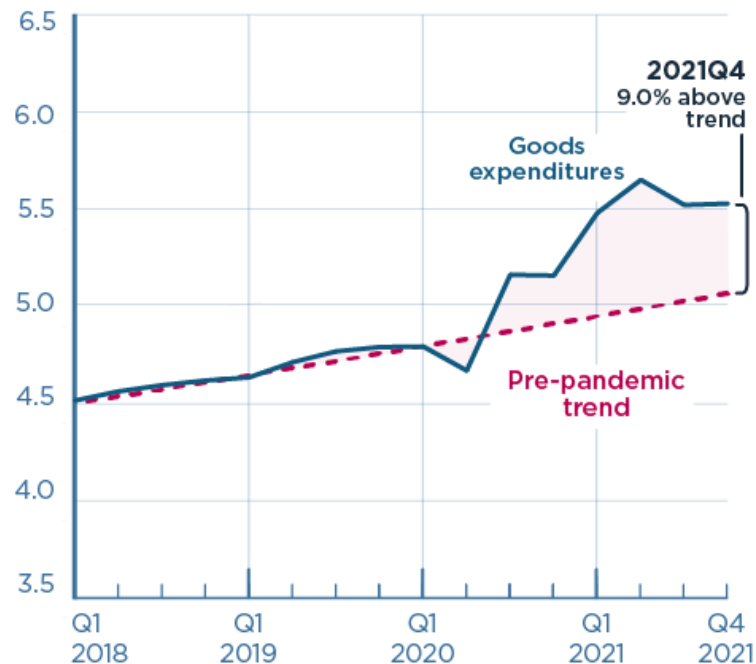


- A public health crisis but also an economic crisis.
- The Covid recession was *incredibly* severe.
 - 20 million jobs lost between Feb and Apr 2020.
 - Worst recession in 70 years.
- But a quick and strong rebound followed.

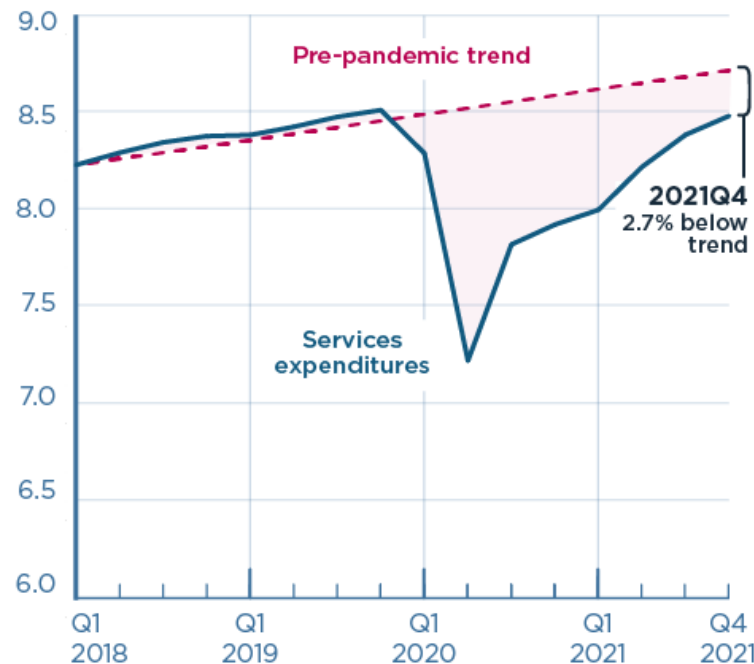
Consumer spending: Goods vs. Services

Real personal consumption expenditures by type, trillions of dollars

a. Goods



b. Services



- A huge shift in consumer spending: away from services and towards goods.
- Spending on goods quickly snapped back & then boomed.
 - Cars, furniture, ...
- But services recovered slowly and incompletely.
 - Restaurants, hotels, transportation, ...



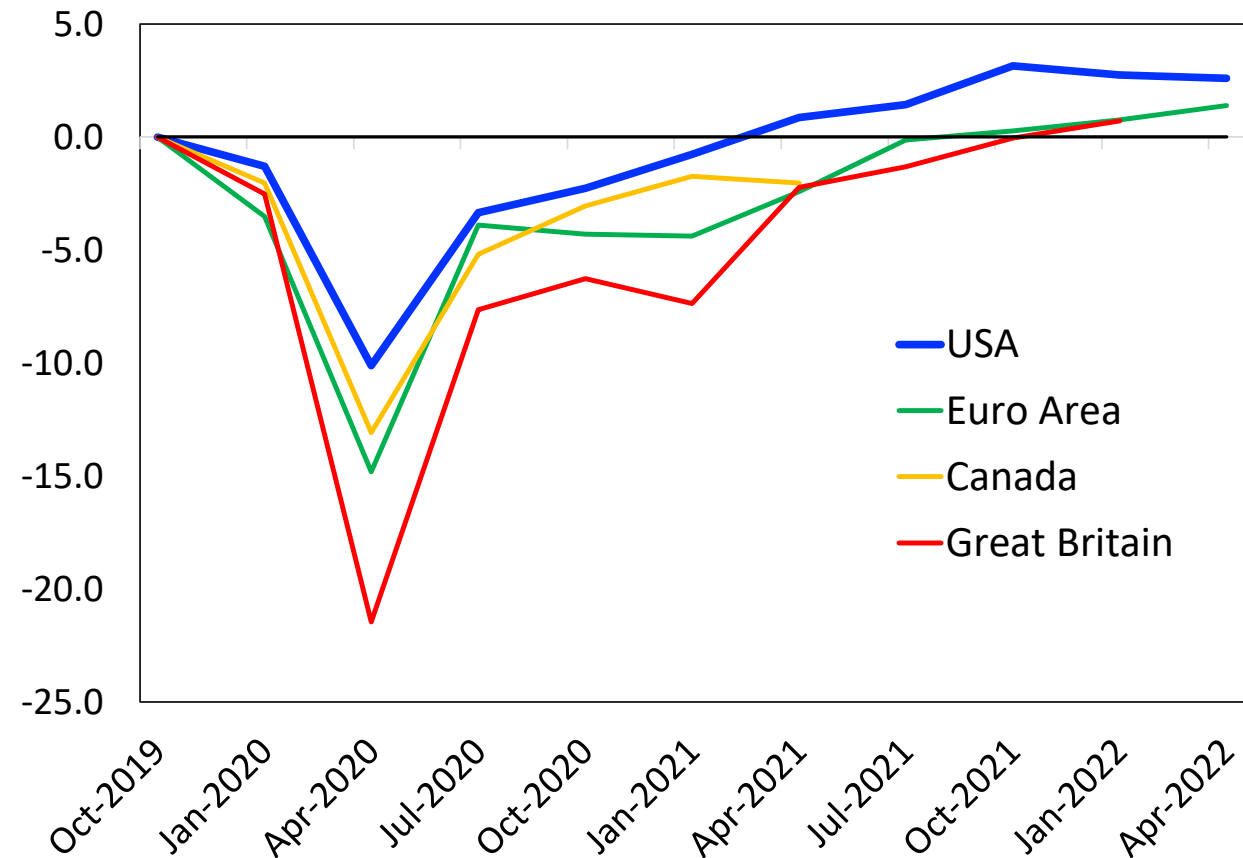
Note: Data refer to chained 2012 dollars. Pre-pandemic trend based on log-linear regression for 2018Q1 to 2019Q4. Adjusted based on ratio of Congressional Budget Office's January 2020 estimate of potential real GDP to pre-pandemic trend for real GDP.

Sources: Bureau of Economic Analysis via Macrobond, Congressional Budget Office, and authors' calculations.

**Although hard hit,
the US did better
than other rich
economies so far.**

Why?

Percent change in output since Covid hit



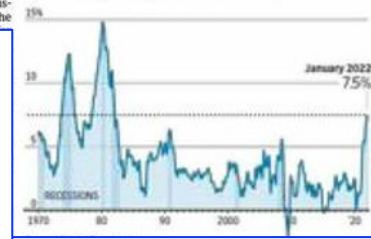
How did the US government respond to the Covid recession?

- Quick, massive, unprecedented support to the economy.
- The two biggest measures:
 1. **CARES Act** (March 2020): \$2.2 trillions
 - Cash payments to individuals
 - Extended unemployment insurance benefits
 - Paycheck Protection Program: forgivable loans to firms.
 2. **American Rescue Plan** (March 2021): \$1.9 trillions
 - Extension of some main measures of CARES.
 - Child allowance for families.
 - Investment in education and health.



2021-2022: The return of inflation and the slowdown

- And now?
- Two concerning trends since 2nd half of 2021:
 - a spike in inflation.
 - a downturn in (some indicators of) economic activity.
- What are the possible reasons? What is next?



Inflation Is Rising At Fastest Pace Since 1981
Year-over-year changes in the Consumer Price Index

Annual Price Changes in June
Year-over-year changes in a selection of categories of the Consumer Price Index

Category	Change (%)
Fuel oil	+98.5%
Gasoline (all types)	+59.9
Piped utility gas service	+38.4
Airline fares	+34.1
Cereals and bakery products	+13.8
Electricity	+13.7
Dairy products	+13.5
Nonalcoholic beverages	+11.9
Meats, poultry, fish and eggs	+11.7
New vehicles	+11.4
All items	+9.1

SOARING INFLATION TIGHTENS SQUEEZE ON U.S. CONSUMERS

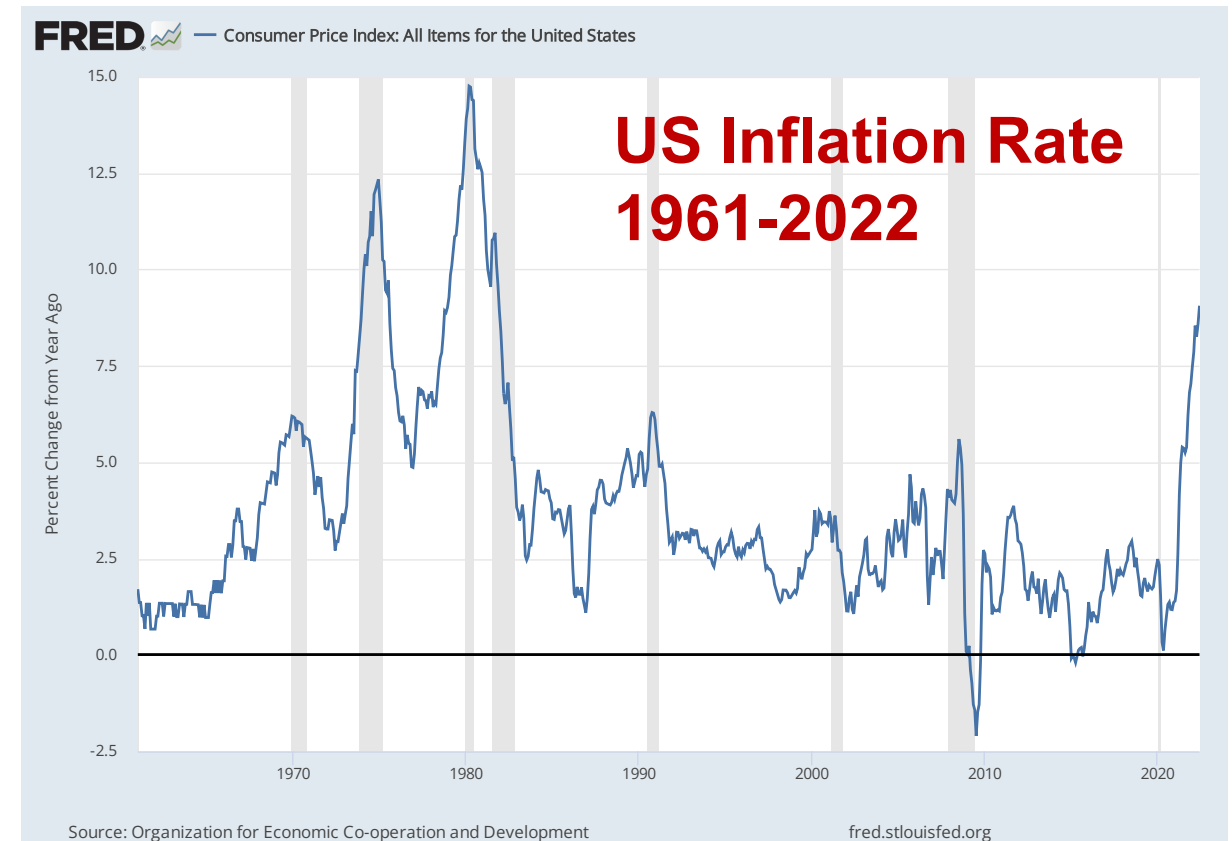
Ray of Hope as Price of Gas Tumbles
By CLIFFORD KRAUSS

Pressure Is on Fed for Bigger Rate Jump
By JEANNA SMIALEK

The return of inflation

Possible causes (?):

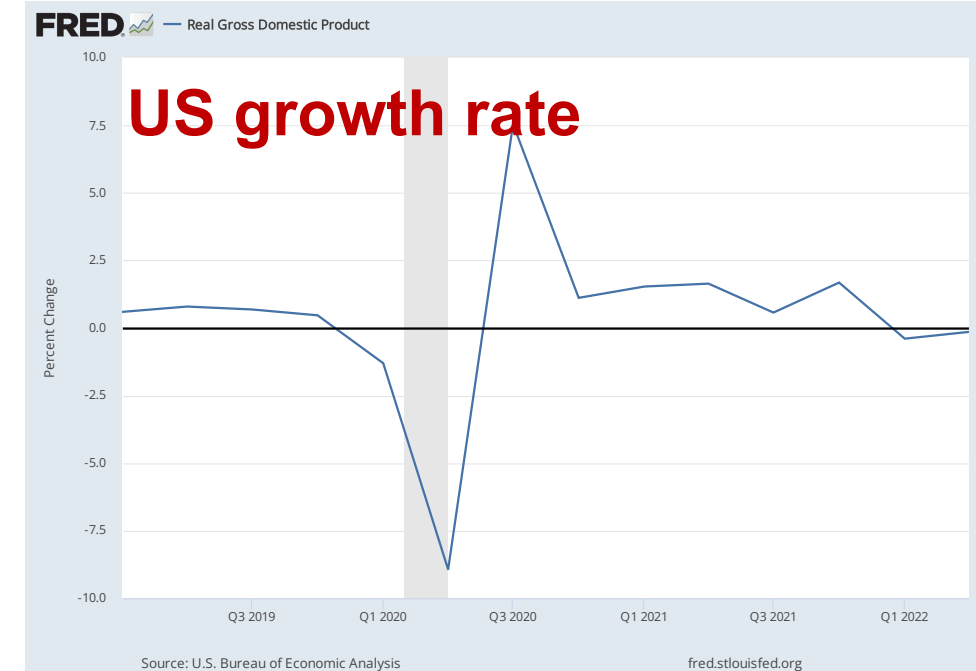
- Supply disruptions due to Covid.
- Too high demand for goods.
- The big 2020-2021 government stimulus.
- War in Ukraine and its effect on energy prices.



The downturn in economic activity

Possible causes (?):

- Fed rising interest rates to fight inflation.
- Winding down of the 2020-2021 stimulus.
- War in Ukraine and its effect on energy prices.
- BUT the economy has kept adding jobs, unlike in the typical downturn!



QUESTIONS & ANSWERS

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