

Notes for Econ 102 Sect. 1, Fall 2005

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Part I

Introduction

1 The Scope of Macroeconomics

- Microeconomics: Object of interest is a single (or small number of) household or firm.
- Macroeconomics: Object of interest is the entire economy.

We care mostly about

1. Growth
2. Fluctuations.

Relation between Macro and Micro

- Micro and Macro. Used to be different: not any more.
- Unifying theme, EQUILIBRIUM APPROACH: (not resting point)
 1. Agents optimize given preferences and technology.
 2. Agents' actions are compatible with each other.

This requires

- Explicit about assumptions.
- Models as abstractions.

What are the requirements of Theory?

- Well articulated models with sharp predictions.
- A good theory cannot be vague: Capable of being wrong.
- Internal Consistency.
- Models as measurement tools.

All this is Scientific Discipline.

Why should we care about Macroeconomics?

- Curiosity: understanding our world.
- Self Interest: macroeconomic aggregates affect our daily life.
- Common Welfare: Essential for policymakers to do good policy.
- Civic Responsibility: Essential for us to understand our politicians.

Why do macroeconomist disagree?

- Most research macroeconomists agree on a wide set of issues (wide agreement on growth theory, less so on business cycle theory).
- There are vested interests behind some opinions.
- Some disagreements are based on our ignorance about quantitative issues that we want to learn about.
- In this course we want to learn about separating opinions from science.