



EE 212 PRINCIPLES OF MACROECONOMICS (SECTION 046402)

Lecture #1

10 January 2011

Dr.Nattapong Puttanapong



PRINCIPLES OF MACROECONOMICS

Semester 2, 2011

Semester: 2/2011 (9 January – 29 April 2012)

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Lecture Time: Tuesday and Thursday: 9:30-11:00 am

Office Hours: Tuesday: 11.00 a.m. – 12.00 p.m.
[or by appointment]

Lecture Venue: TBA

Course Withdrawal with “W”: 15 – 21 March 2012



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Evaluation:

Homework and/or paper and/or quiz	10%
Midterm exam (Thursday, 1 March 2011, 9.30 a.m. - 11.00 a.m.)	30%
Final exam (Friday, 4 May 2011, 9.00 a.m. – 12.00 p.m.)	60%



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Main Text:

Lipsey, R.G., Courant, C.T.S., and Ragan, P.A. (2008), *Economics* (13th ed.):
Pearson Addison-Wesley

Recommended Texts:

Case, Karl E. and Ray C. Fair (2009), *Principles of Macroeconomics* (9th ed.):
Prentice Hall.

Froyen, Richard T. (2009), *Macroeconomics, Theories and Policies* (9th ed.):
Prentice Hall.]

Mankiw, N.G., *Principles of Macroeconomics* (2009): South-Western Cengage
Learning

Note: Please bring calculator and some color pens to the class



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Why Study Economics?

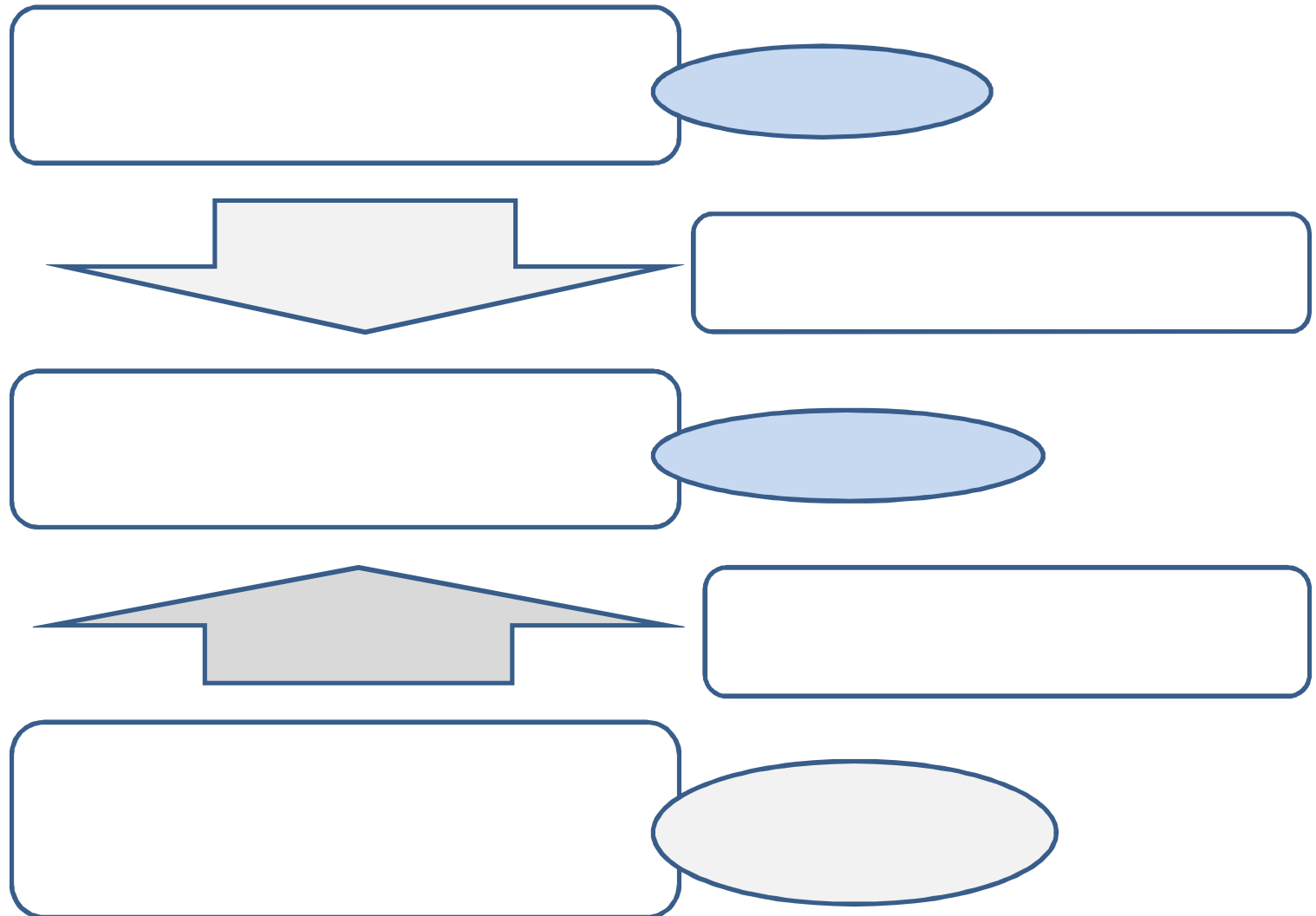
(1) To Learn A Way Of Thinking

- **Opportunity cost** The best alternative that we forgo, or give up, when we make a choice or a decision.
- **Scarcity** Most resources are limited.



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Why Study Economics?

(2) To Understand Society



- **Industrial Revolution** The period in England during the late eighteenth and early nineteenth centuries in which new manufacturing technologies and improved transportation gave rise to:

Industrialization -

Urbanization -



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The Era of Sherlock Holmes



It was an era of dizzying technological advance: in the 20 years between 1867 and 1887 alone, the typewriter, the telephone, the gramophone, the telegraph, the electric light bulb, the internal combustion engine, and the transatlantic cable were all invented. As critic Rosemary Jann writes, "Through the character of Holmes, Doyle brilliantly popularized the century's confidence in the uniform operation of scientific laws that allowed the trained observer to deduce causes from effects."

Holmes's role as the consummate Victorian gentleman was equally important in making him a hero. Among the enormous changes brought by the industrial revolution was an expanding middle class with a growing concern about its place in society.



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Why Study Economics?

(3) To Understand Global Affairs

- News headlines are filled with economic stories
- International events often have enormous economic consequences
- With globalization, one event can create globally and inevitably impacts





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Why Study Economics?

(4) To be an informed decision maker

- In personnel and business decision



Thailand

Market Strategy

Our Top Picks

Figure 6: Our top picks

Bangkok Bank	BBL TB	We believe the CAPEX cycle has started and would continue into 2012-13, and BBL stands to benefit, given its large exposure to, and strong position in, the corporate segment. Besides, pent-up investment demand during the flood and the demand for reconstruction after the flood should imply an even stronger loan growth outlook for the bank in 2012.
Investment rating	Outperform	
Analyst	Thaninee Satirareungchai, CFA	
Current price (Bt)	155.00	
12-M target price (Bt)	197.00	
Upside/downside (%)	27.1	
KASIKORN BANK Plc.	KBANK TB	KBANK is well-positioned for sustainable growth, thanks to its prudent growth strategy and strong risk management, its well-diversified loan portfolio in both terms of segments and sectors, and its relatively high exposure to transactional deposits which would be the key to boost the bank's fee income. Other than the decent loan growth expected along with the economic growth in 2012, KBANK's strong franchise in the retail and SME segments should provide sustainable growth going forwards.
Investment rating	Outperform	
Analyst	Thaninee Satirareungchai, CFA	
Current price (Bt)	122.00	
12-M target price (Bt)	176.00	
Upside/downside (%)	44.3	
PTT Exploration & Production	PTTEP TB	We see a reduction in the risk of capital raising, which has been the key overhang on the share price in the past year. This is because of i) a less aggressive stance on growth in our view with a shift in PTTEP's focus to shorter-term goals with an average sales target of 500K BOED by 2015 (vs. previous focus on longer-term goal of 900K BOED by 2020); and ii) decreasing borrowing cost from negative interest rate outlook over the coming quarters.
Investment rating	Outperform	
Analyst	Piyathida Vongvivathchai	
Current price (Bt)	169.00	
12-M target price (Bt)	200.00	
Upside/downside (%)	18.3	



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Why Study Economics?

(4) To be an informed decision maker

- In political decision





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Introduction to Macroeconomics

Microeconomics -

Macroeconomics -



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The Scope of Economics

Microeconomics and Macroeconomics

Examples of Microeconomic and Macroeconomic Concerns

Divisions of Economics	Production	Prices	Income	Employment
Microeconomics	<i>Production/output in individual industries and businesses</i> <ul style="list-style-type: none">• How much steel• How much office space• How many cars	<i>Price of individual goods and services</i> <ul style="list-style-type: none">• Price of medical care• Price of gasoline• Food prices• Apartment rents	<i>Distribution of income and wealth</i> <ul style="list-style-type: none">• Wages in the auto industry• Minimum wage• Executive salaries• Poverty	<i>Employment by individual businesses and industries</i> <ul style="list-style-type: none">• Jobs in the steel industry• Number of employees in a firm• Number of accountants
Macroeconomics	<i>National production/output</i>	<i>Aggregate price level</i>	<i>National income</i>	<i>Employment and unemployment in the economy</i>



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The Method of Economics

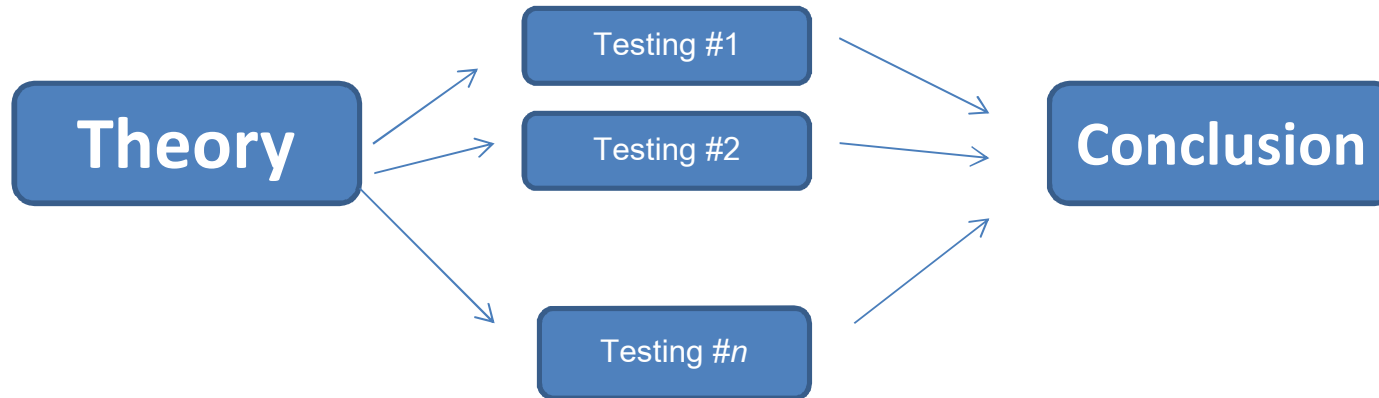
- **Positive economics** - an approach to economics that seeks to understand behavior and the operation of systems without making judgments. It describes what exists and how it works. (Pure science)
- **Normative economics** - an approach to economics that analyzes outcomes of economic behavior, evaluates them as good or bad, and may prescribe courses of action. Also called policy economics.



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Deductive Method



Inductive Method





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Macroeconomic Concerns

Major concerns of macroeconomics are

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-
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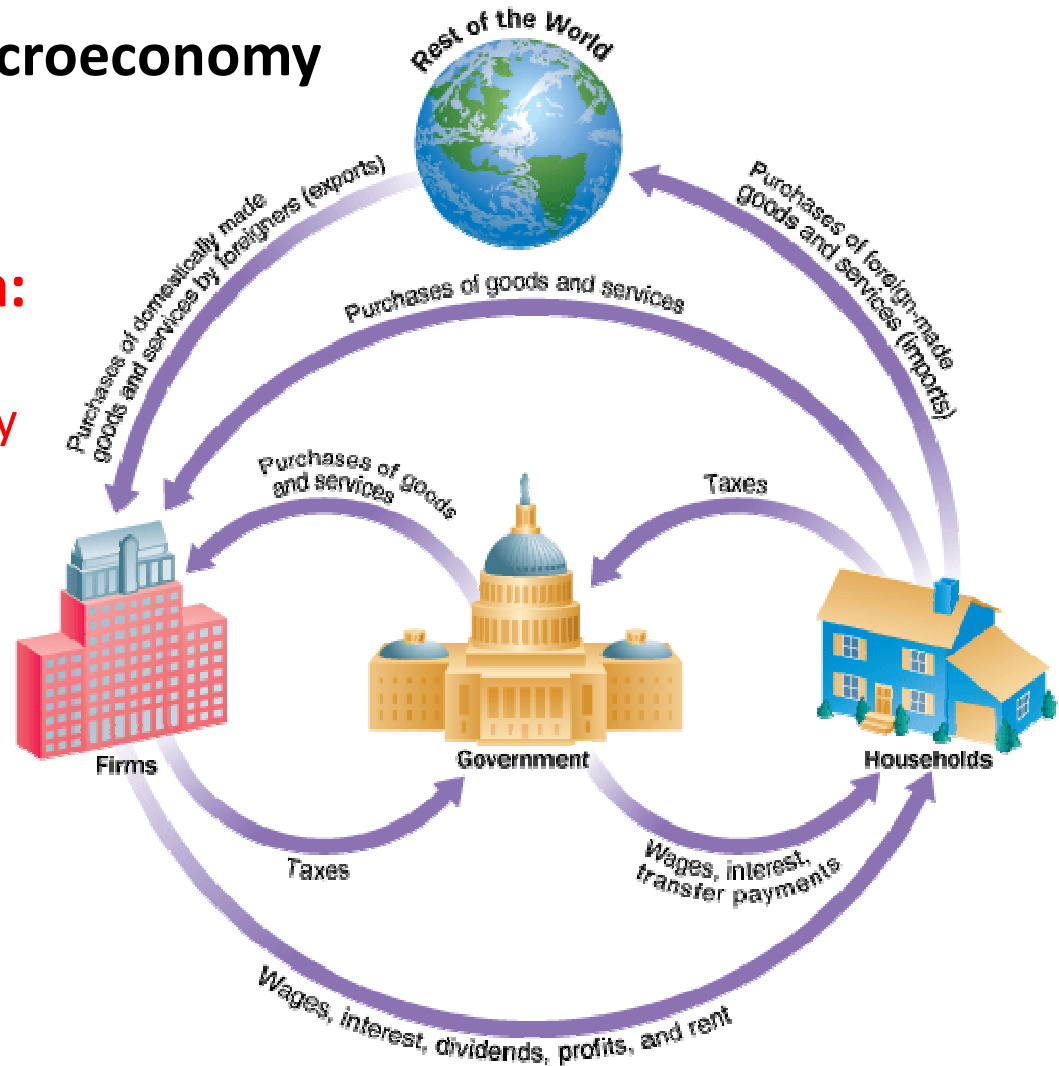


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The Components of the Macroeconomy

The Circular Flow Diagram:
A diagram showing the income received and payments made by each sector of the economy.





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The Circular Flow Diagram: Step 1



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The Circular Flow Diagram: Step 2 (Adding government)



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The Circular Flow Diagram: Step 3 (Adding International trade)



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The Components of the Macroeconomy

Markets

Another way of looking at the ways households, firms, the government, and the rest of the world relate to each other is to consider the markets in which they interact.

We divide the markets into three broad arenas:



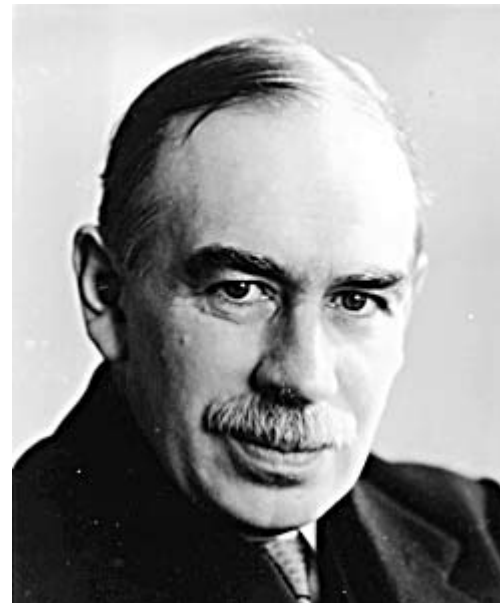
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A Brief History of Macroeconomics

John Maynard Keynes (1883-1946)

Much of the framework of modern macroeconomics comes from the works of John Maynard Keynes, whose *General Theory of Employment, Interest and Money* was published in 1936.





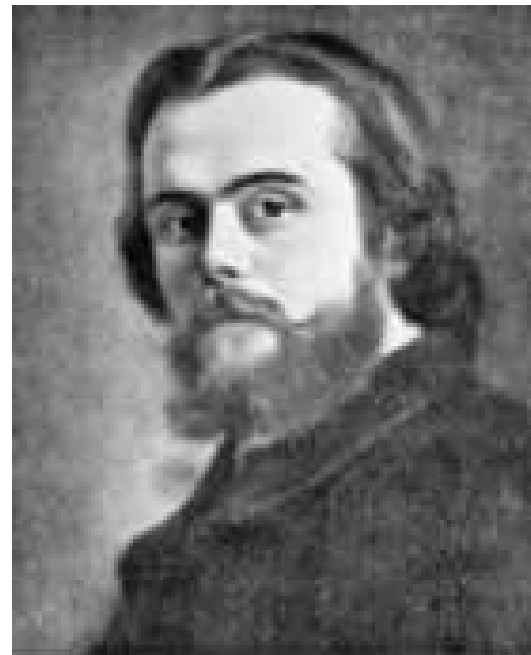
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A Brief History of Macroeconomics

Leon Walras (1834-1910)

- Unanimously recognized as one of the founding fathers of the neoclassical model
- French mathematical economist associated with the creation of the general equilibrium theory.
- In 1874 and 1877 Walras published Elements of Pure Economics, a work that led him to be considered the father of the general equilibrium theory.





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The Circular Flow Diagram: Keynes's argument