INTERMEDIATE MACROECONOMICS

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AGENDA

- Logistic information
- What do we study in this course?

LOGISTIC INFORMATION

- Instructor: Dr. Kittichai Saelee
- Lecture venue: Room 303; 11 am – 01 pm. (2 hours)
- Contact: kittichai_lee[at]econ.tu.ac.th
- Office hours: Room#516, Fri between 3.00 pm and 5 pm.

* Send me an email ahead of time. Please tell me when you are coming so that I stand by in my office.

LOGISTIC INFORMATION

- Evaluations:
  - Homework or quiz: 10% (Individual work)
  - Midterm: 40% **(Wednesday, March 14, 2018, 12.00 - 14.00 hrs.)**
  - Final exam: 50% **(Monday, May 21, 2018, 09.00 – 12.00 hrs.)**

  * No make-up exam will be given; please manage schedule ahead of time.

  * Grading is based on curve/distribution in our own section. I reserve right to use my own discretion that I find suitable for the grading process.

- Class materials will be posted on the BE moodle. (passcode: **3821**)

LOGISTIC INFORMATION

- Class starts at 11.05 am. Please be here on time!
  - I don't check for your class attendances. Your are adult; manage your own life!
- This course is *VERY* hard. It takes time to understand materials. You better study by reading materials before coming to class.
- Also, I need concentration when giving the lecture. So, don't talk!
- Recoding / Photographing are fine; but for personal use and No live!
- It is best to catch up what's going on the real world; parts of what we discuss in this class will be related to real-world situations.
- No class on Friday, 12th.
  - Make-up session: 17/19 Jan from 13.00 – 14.00 pm (3 hours session)

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WHAT WE STUDY IN THIS COURSE

- Goals of the study in course share a great deal of similarity to what you studied in ee212, in terms of common questions.

- Ultimately, we aim to understand in *greater details (with more extensions) of* the two big issues in macroeconomics, i.e. Long-term economic growth v.s. business cycles/economics fluctuations.

Decimal points

- Income disparity across countries?
- Huge variations in growth outcome: why?. Engine of growth?
- Difficulty in catching up? Convergence?

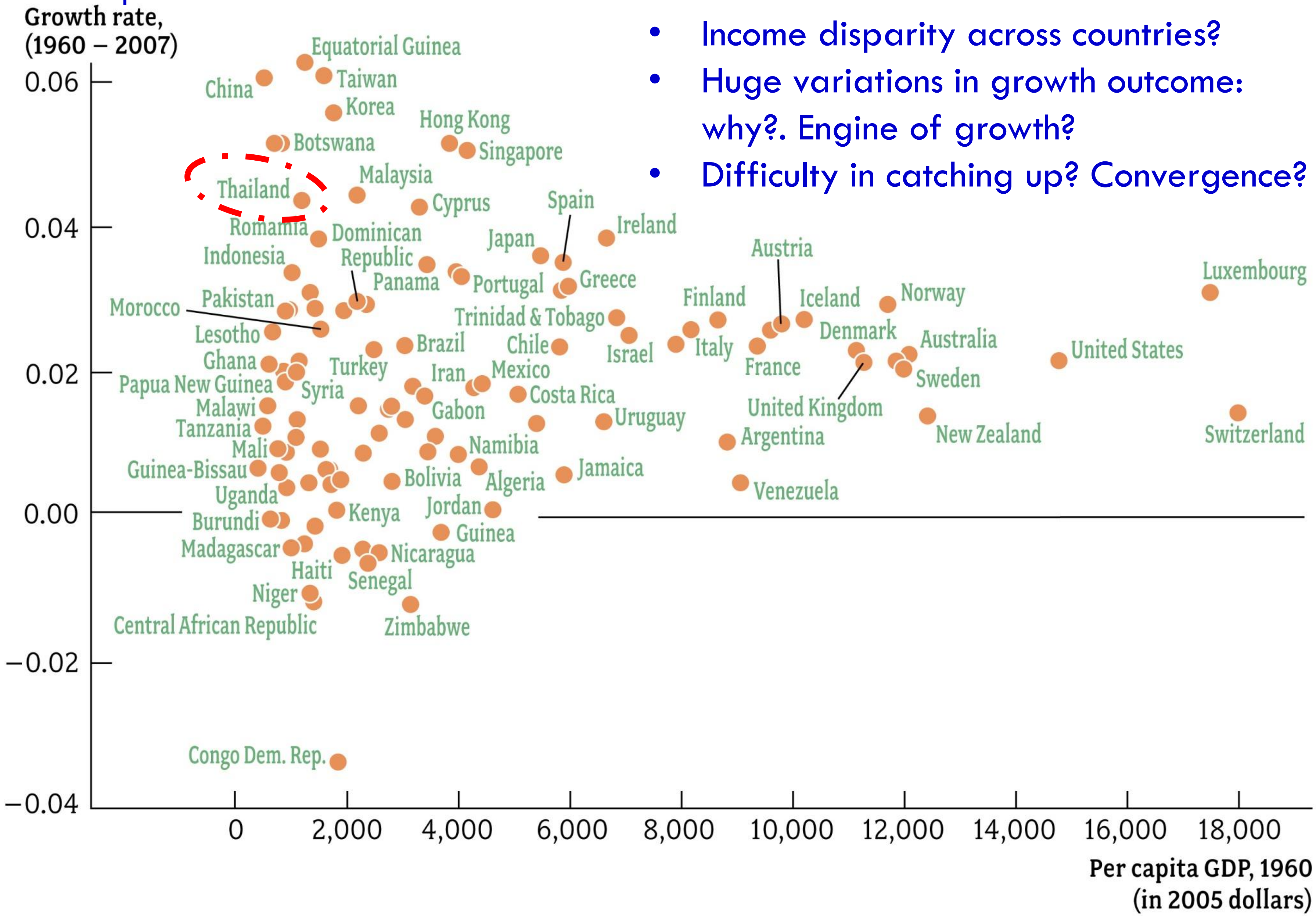
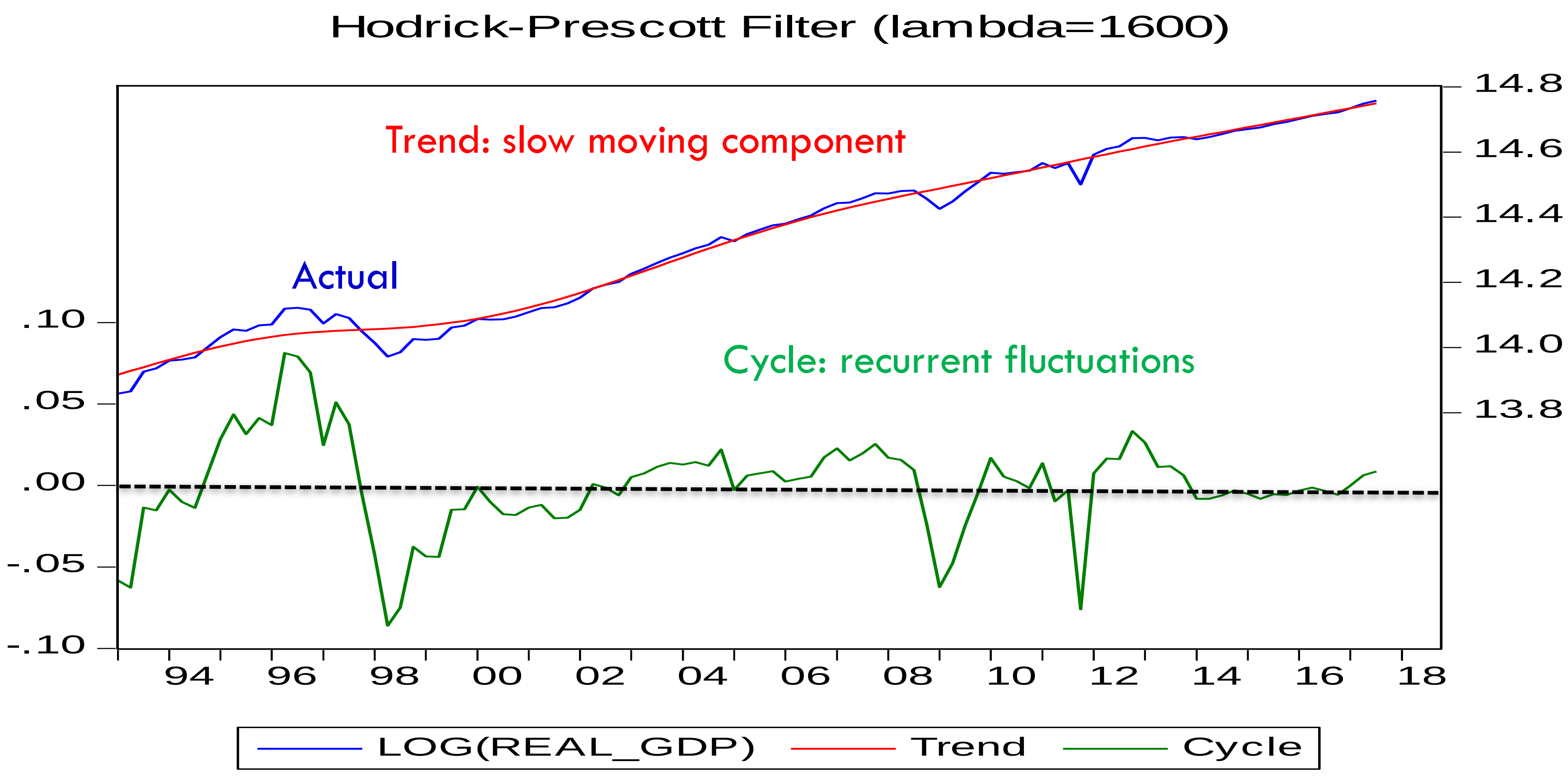


FIGURE 5.9 **Growth Rates around the World, 1960–2007**

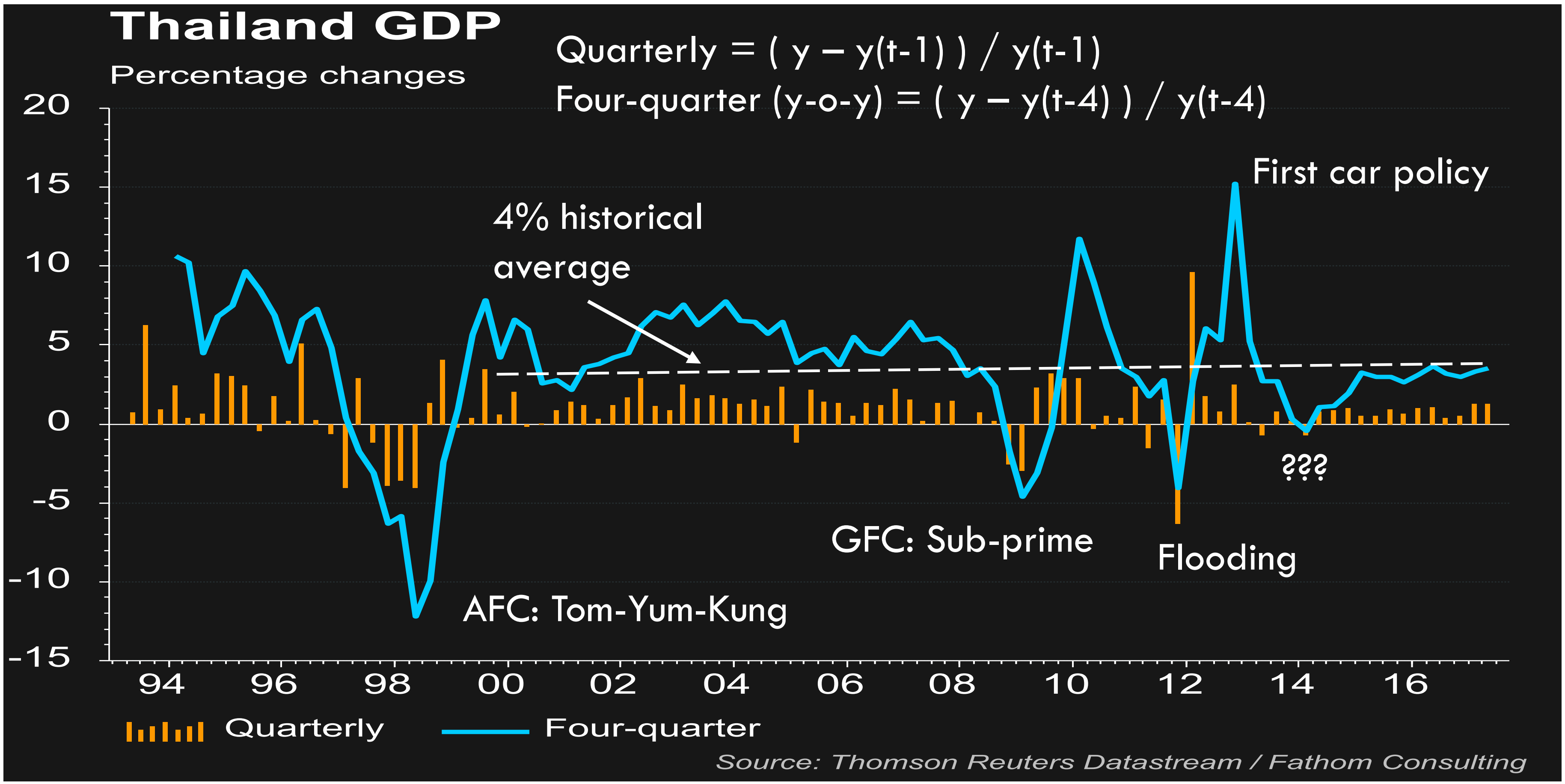
SHORT-RUN OR MEDIUM-RUN BUSINESS CYCLES AND FLUCTUATIONS

- Normally, we observe that country's real GDP grows over time, as the series have exhibited trending pattern in the evolution of real GDP.
- Statistically, trend is a slow moving (smooth) component. (Borrow the jargon from ST216)
- Deviation of the actual series from its counterpart slow moving (smooth) component usually/commonly occurs.
- Such deviation is called the cyclical component, and this represents the so called "business cycles/economic fluctuations".

TREND: SLOW-MOVING (SMOOTH) COMPONENT
CYCLE: DEVIATIONS FROM THE TREND



VARIATIONS OF GROWTH RATE IN REAL GDP



WRAP UP: QUESTIONS IN MACROECONOMICS

	Growth	Business cycles
Positive	• What causes the disparity in the level of income per capita across countries? • Why do some countries grow, on its average basis, faster than other countries?	• Why do countries experience recurrent fluctuations in level of GDP and growth of GDP? • What are the mechanisms behind the fluctuations? Pattern of fluctuations across different variables? • Why do the recessions occur?
Normative	• What can we do to improve our country? • How to catch up the level of income per capita that other wealthy countries have been experiencing.	• What do need to do to maintain our economy to remain stabilized around its long-term path? • Should or shouldn't we intervene the system by any government policies?

HOW DO I (WE) ORGANIZE THE TEACHING IN THIS COURSE?

Discuss various theories and models.

Grouping issues by **time horizon**.

1. Long-run issue → Growth → Growth issue is pretty new to you.

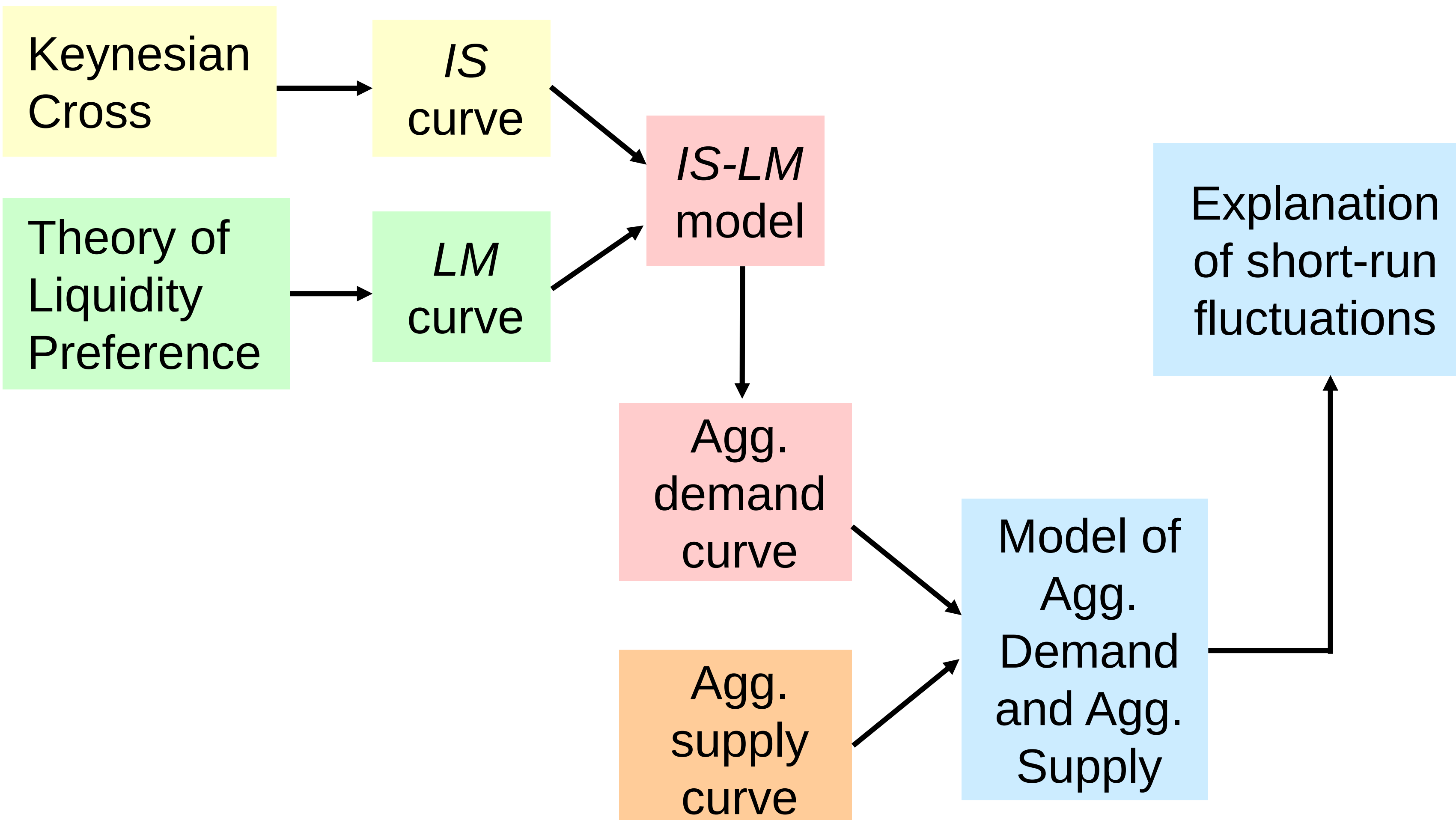
2. Short-run and medium-run issue → Business cycles and fluctuations

2.1) Short-run issue: **incomplete price/wage adjustment**

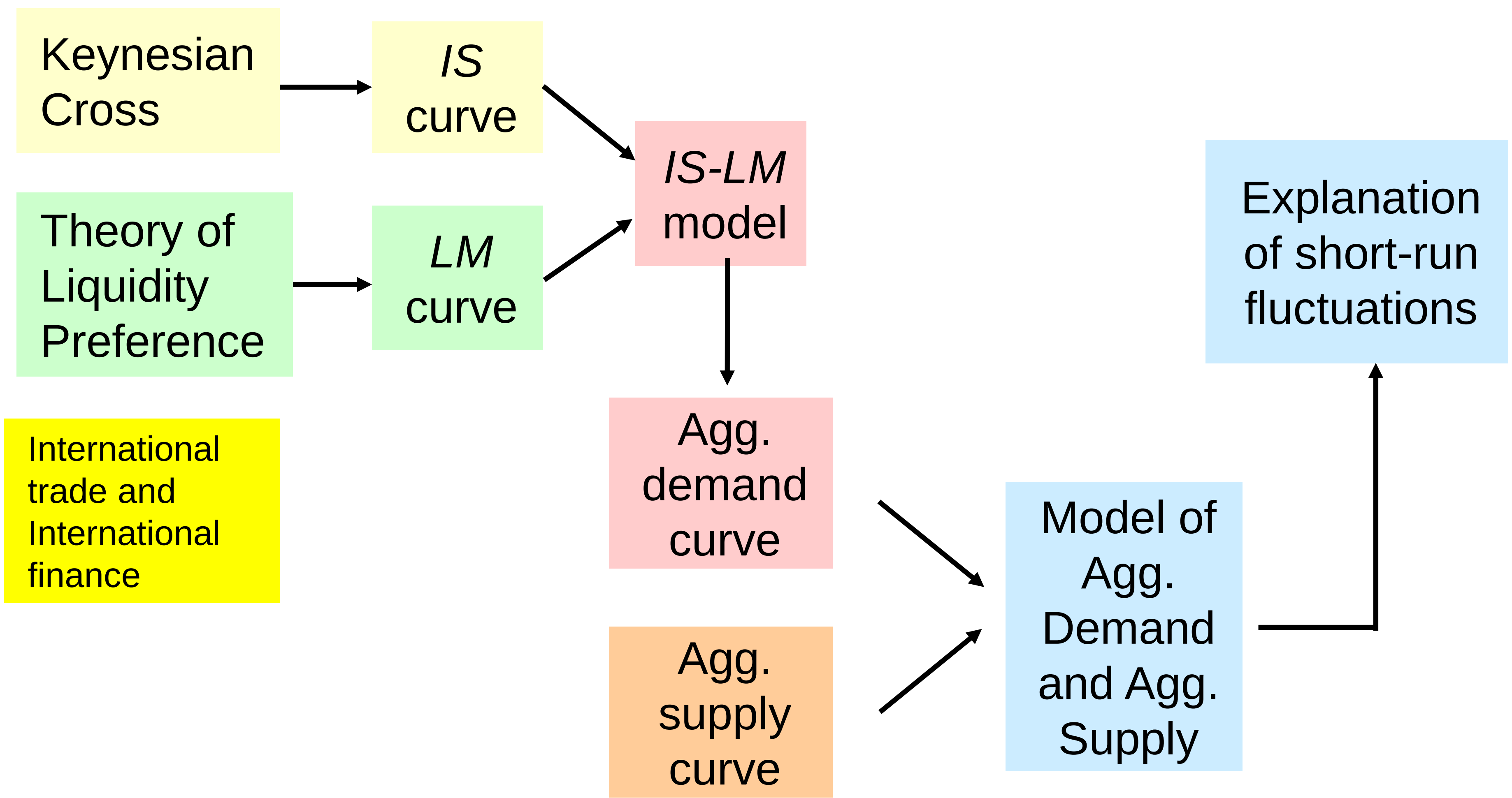
2.2) Medium-run issue: **dynamic adjustment towards the long-run**

Fluctuations have been somewhat discussed in EE212; **so, what's new then?**

SHORT-RUN FLUCTUATIONS IN EE212: THE KEYNESIAN SYSTEM

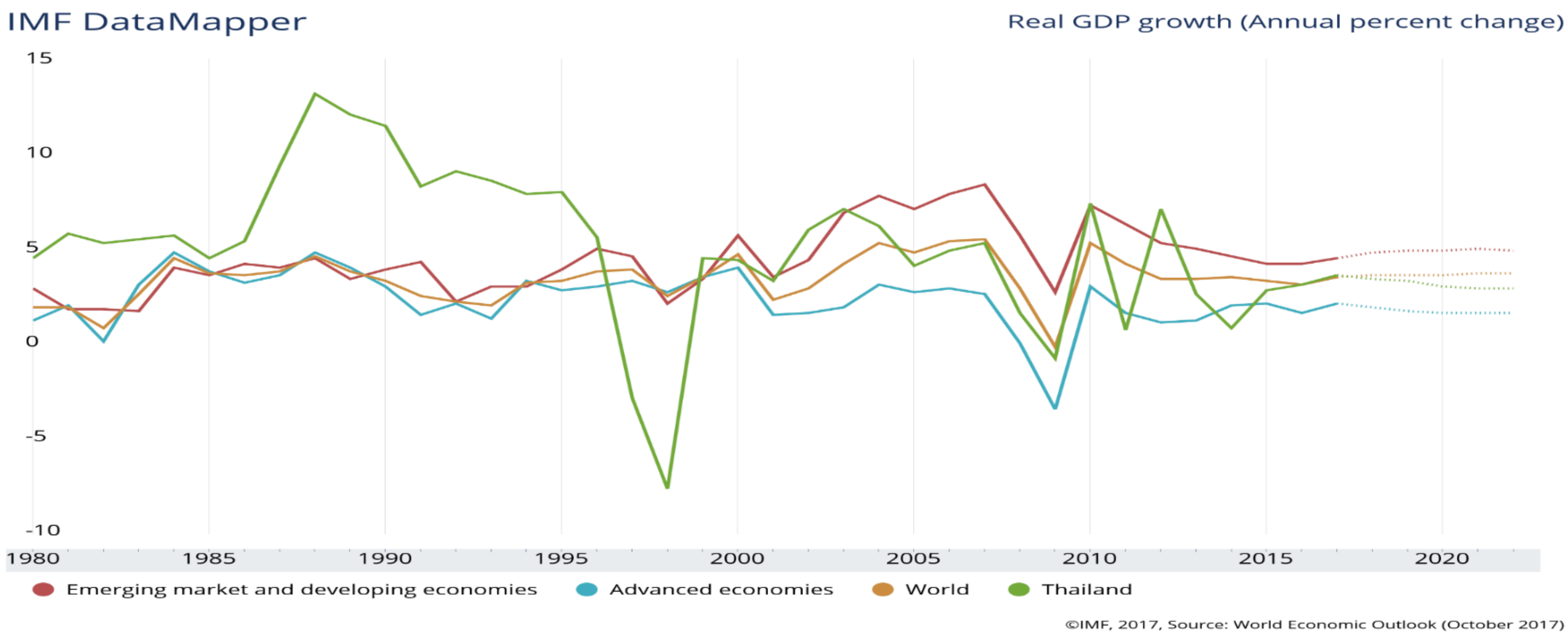


WHAT'S NEW IN EE312 THEN?: *EXTENSIONS* OF KEYNESIAN SYSTEM



WHAT'S NEW: INTERNATIONAL DIMENSION

- **Focus more on international dimensions; knowing how to explain the connection between global and Thai macroeconomy. Why?**



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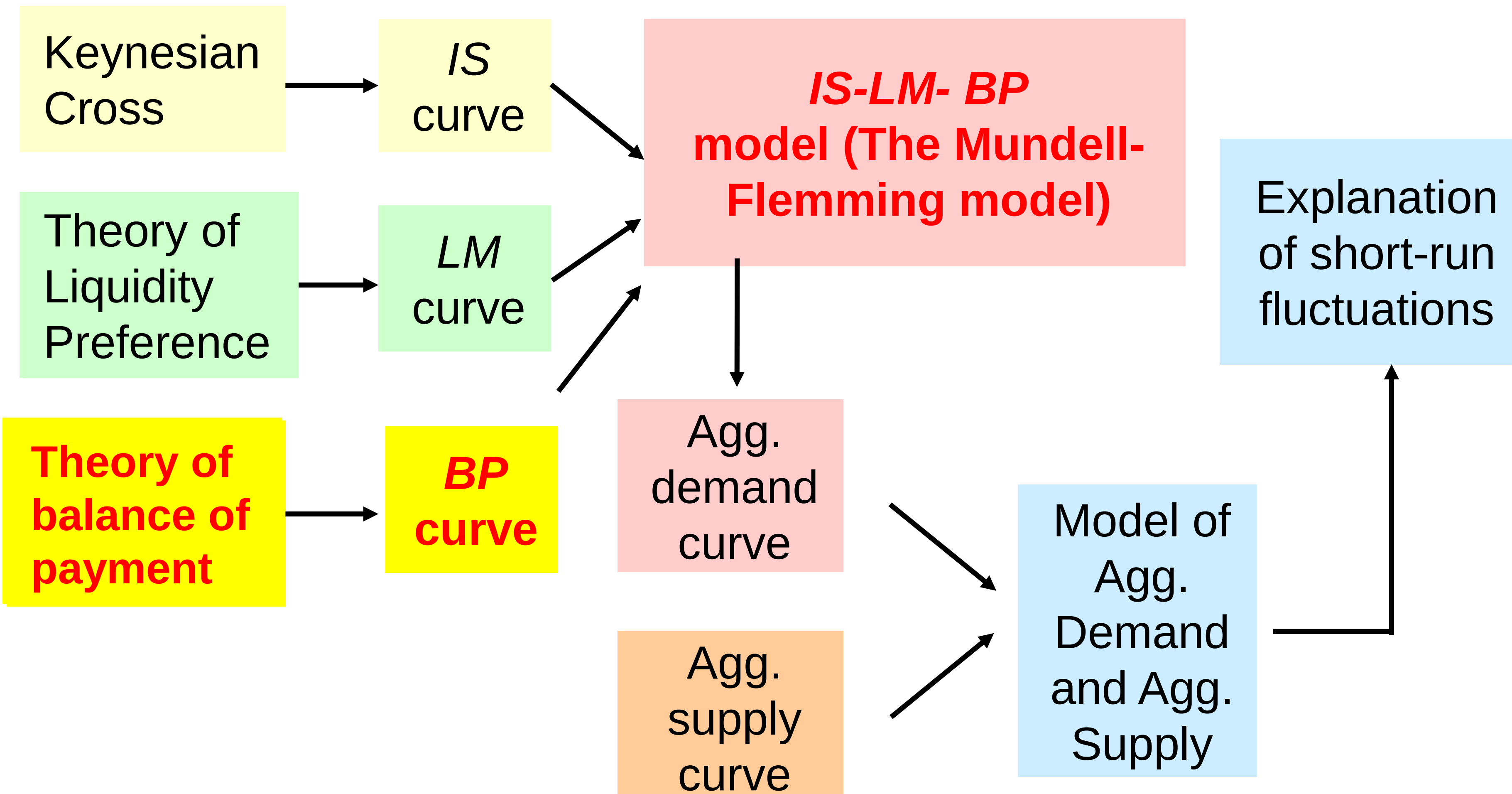
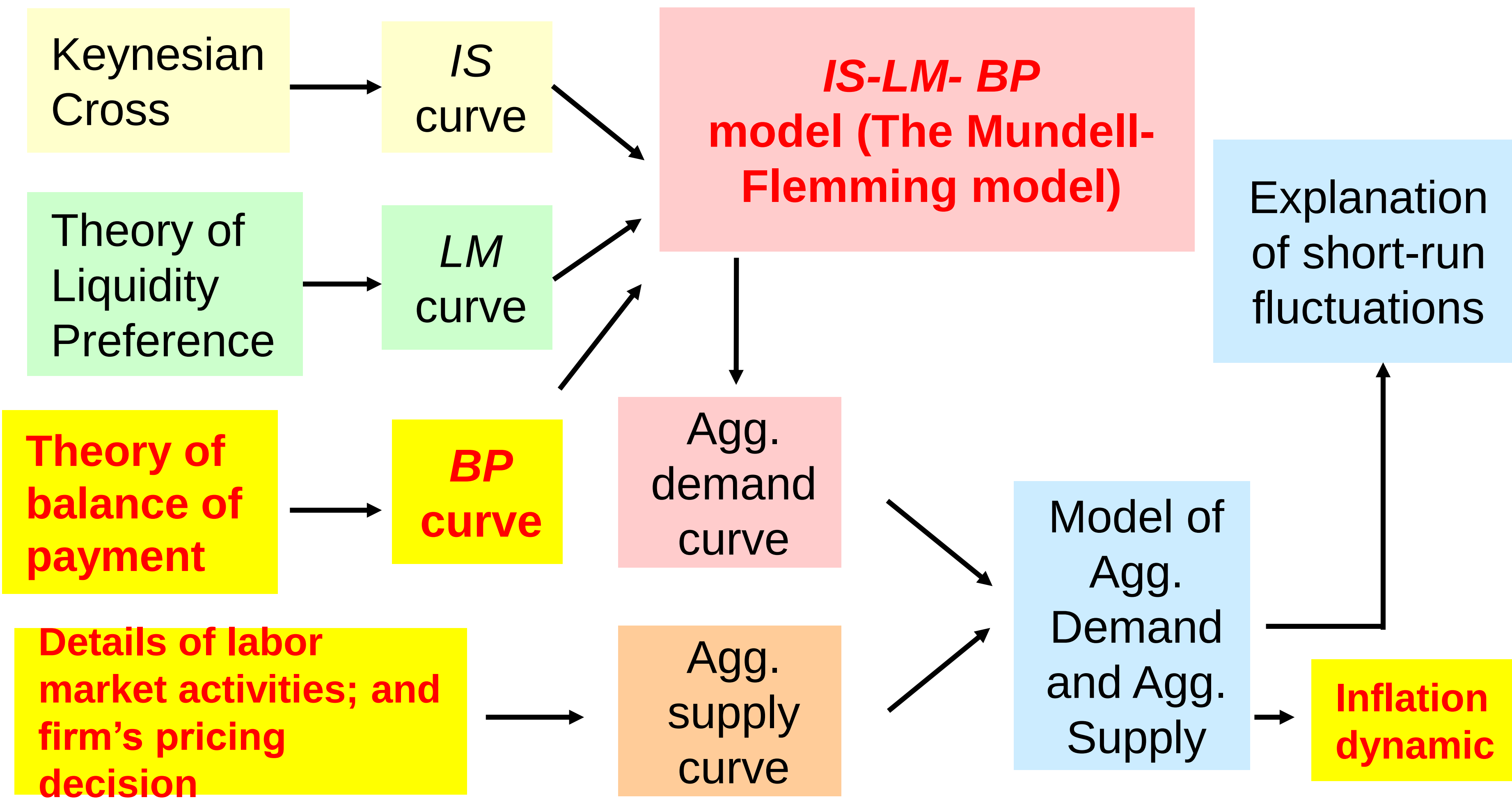


WHAT'S NEW IN EE312 THEN?: *EXTENSIONS* OF KEYNESIAN SYSTEM



WHAT'S ELSE?

- Focus more on international dimensions; knowing how to explain the connection between global and Thai macroeconomy. Why?
- Supply side issue: labor market activities and inflation
- Alternative macroeconomics school of thoughts: Monetarism, New Classical and New Keynesian
- Micro-foundation approach

MICRO-FOUNDATION APPROACH

- Historically, Keynesian Macroeconomics emerged itself as a specific field in economic around 1930s; The Great depression.
- Opponents (Classical economists) to the approach argued that the framework is not correct.
- However, people don't care because Keynesian models did a very good jobs in terms of explaining data, forecasting, and provide policy recommendations; economy had been stable.
- Opponents' voices have been heard since 1970s' as the traditional model failed to explain what happened back then, i.e. the first oil shocks.
- This led the rise of micro-foundation approach; paradigm shifted since then.

TRADITIONAL V.S. MICRO-FOUNDATION

- The idea is simple: macroeconomics is the aggregation of individuals behavior.
- Having a proper understanding how micro-level unit makes decision should allow for better predictions; models fit the data better.
- Flexible than traditional Keynesian framework because we can add more ingredients into the analysis.
- Provide more structurally coherent interpretation on data; lot of tools in statistic have been well developed for taking the micro-foundation models to test with data.

READING MATERIALS

Lot of work!... Spend your time wisely in this semester.

See your syllabus.

- Froyen: Chapter 1 – Chapter 15 (Midterm)

- Williamson: Chapter 1 – Chapter 11 (Final)

Don't complain!!! This course is 4 units of credit.

Textbook can be purchased at the bookstore.

Check BE moodle.