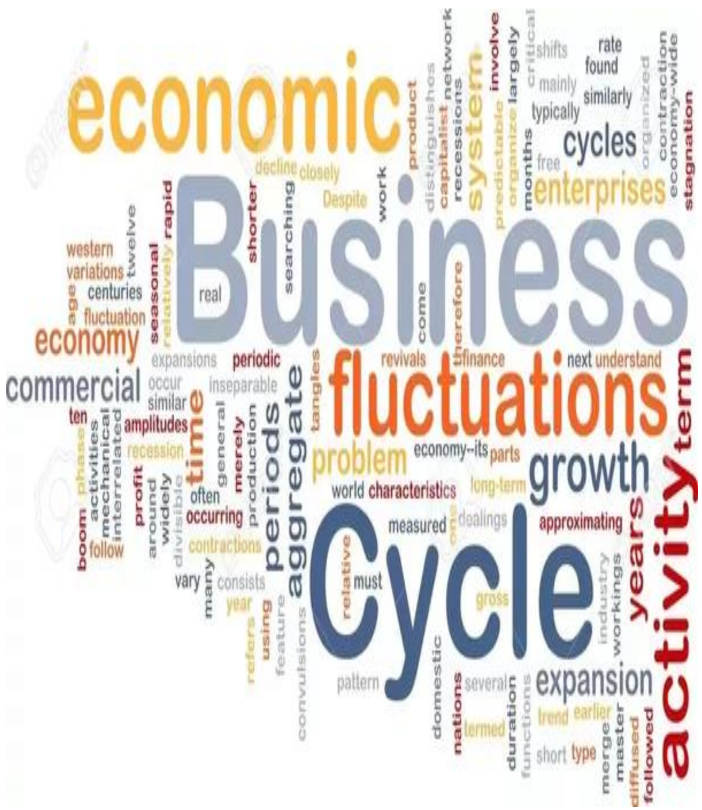
INTERMEDIATE MACROECONOMICS

Kittichai Saelee
EE312
Faculty of Economics
Thammasat University

AGENDA

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



LOGISTIC INFORMATION

- **Instructor:** Assist Prof. Kittichai Saelee, Ph.D.
- **Lecture venue:** Room 304; 11 am – 1.30 pm. (2.30 hours)
  - Trust me! We definitely need many extra classes. So, it's best to smooth out the hours.
- **Contact**: kittichai_lee[at]econ.tu.ac.th
- **Office hours:** Room#516, by appointment only (via email)

LOGISTIC INFORMATION

- Evaluations:
  - Group work: 8% (group homework; max of 4)
  - Quiz: 12% (7 quizzes; drop the lowest one)
  - Midterm: 35% **(Oct 4th, 2019; 11.30 – 14.00 hrs)**
  - Final exam: 45% **(Dec 2nd , 2019, 13.30 – 16.30 hrs)**

    - No make-up exam!

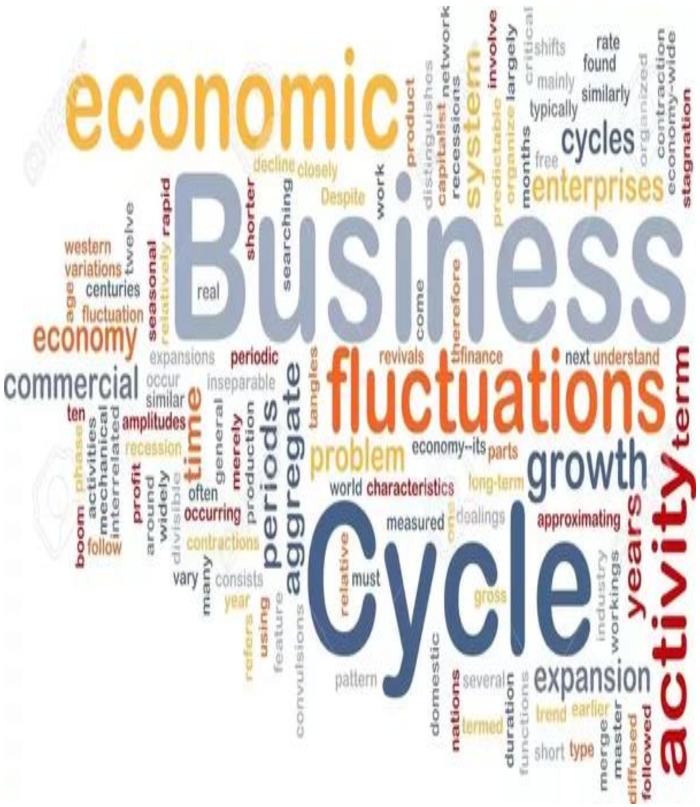
- Materials:
  - Posted on the BE moodle; passcode **1256**

http://shorturl.at/rJLX2

LOGISTIC INFORMATION

- Class starts at 11.05 am. Please be here on time!
- No cellphone, no social media, no FB live.
- This course is ***VERY*** hard. Be prepared!
- Group study is recommended.

AGENDA



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

WHAT WE STUDY IN THIS COURSE

- Similar to what you studied in EE212, in terms of common questions.

- Understanding in greater details (**with more extensions**) of the **two big issues** in macroeconomics:
  - Long-term growth
  - Business cycles fluctuations

LONG-TERM GROWTH ISSUES

Poverty in India

Affluent society in developed countries.

Group	Income range	Example
High income (79)	> $12,235	North America, Western Europe, East Asia, oil-rich Middle East.
Upper middle income (55)	$3,956 - $12,235	South America, Eastern Europe, Russia, South-East Asia.
Lower middle income (52)	$1,006 - $3,955	South America, Central Asia, Africa.
Low income (31)	< $1,006	Central and East Africa
World average	10,302	

LONG-TERM GROWTH ISSUES

Income differences ← Growth performance

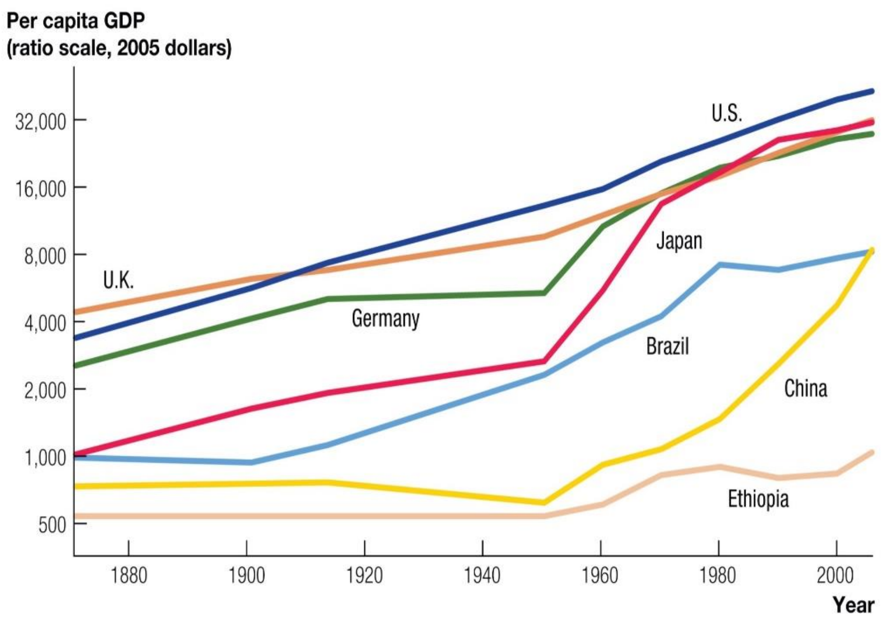


FIGURE 1.1 Per Capita GDP in Seven Countries, 1870–2006

Macroeconomics, 2nd Ed

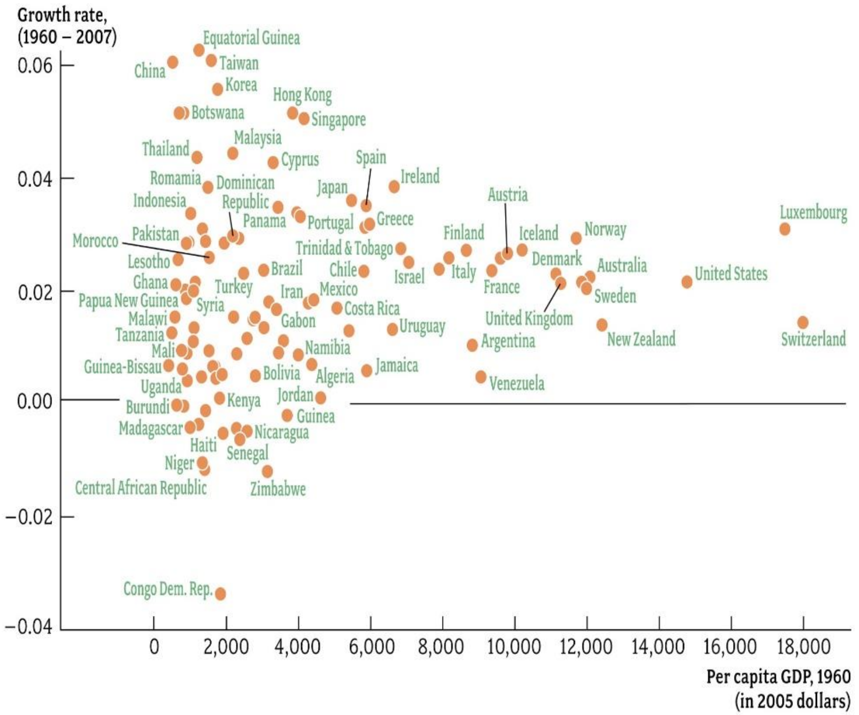


FIGURE 5.9 Growth Rates around the World, 1960–2007

Macroeconomics, 2nd Ed

Income-per-head differences

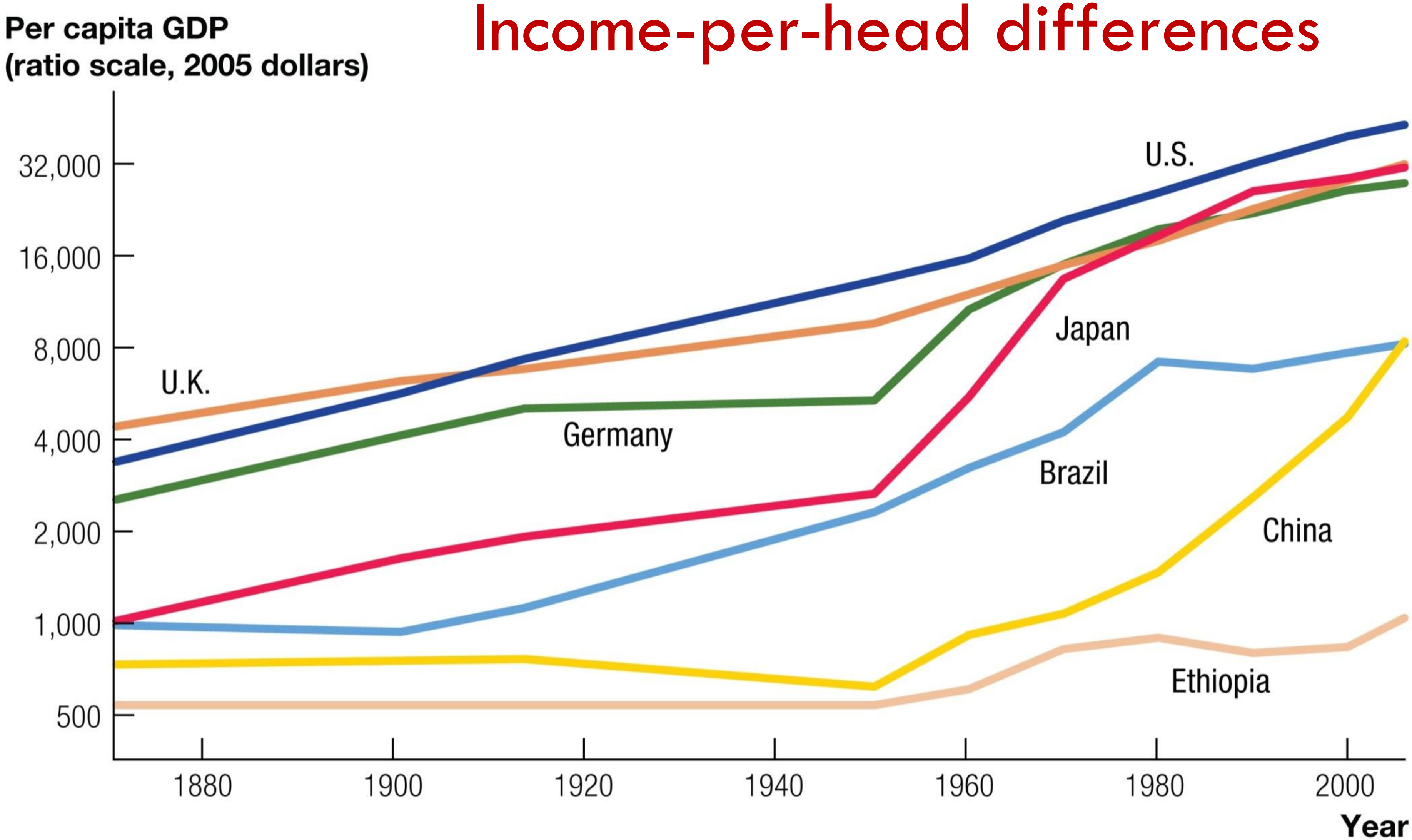
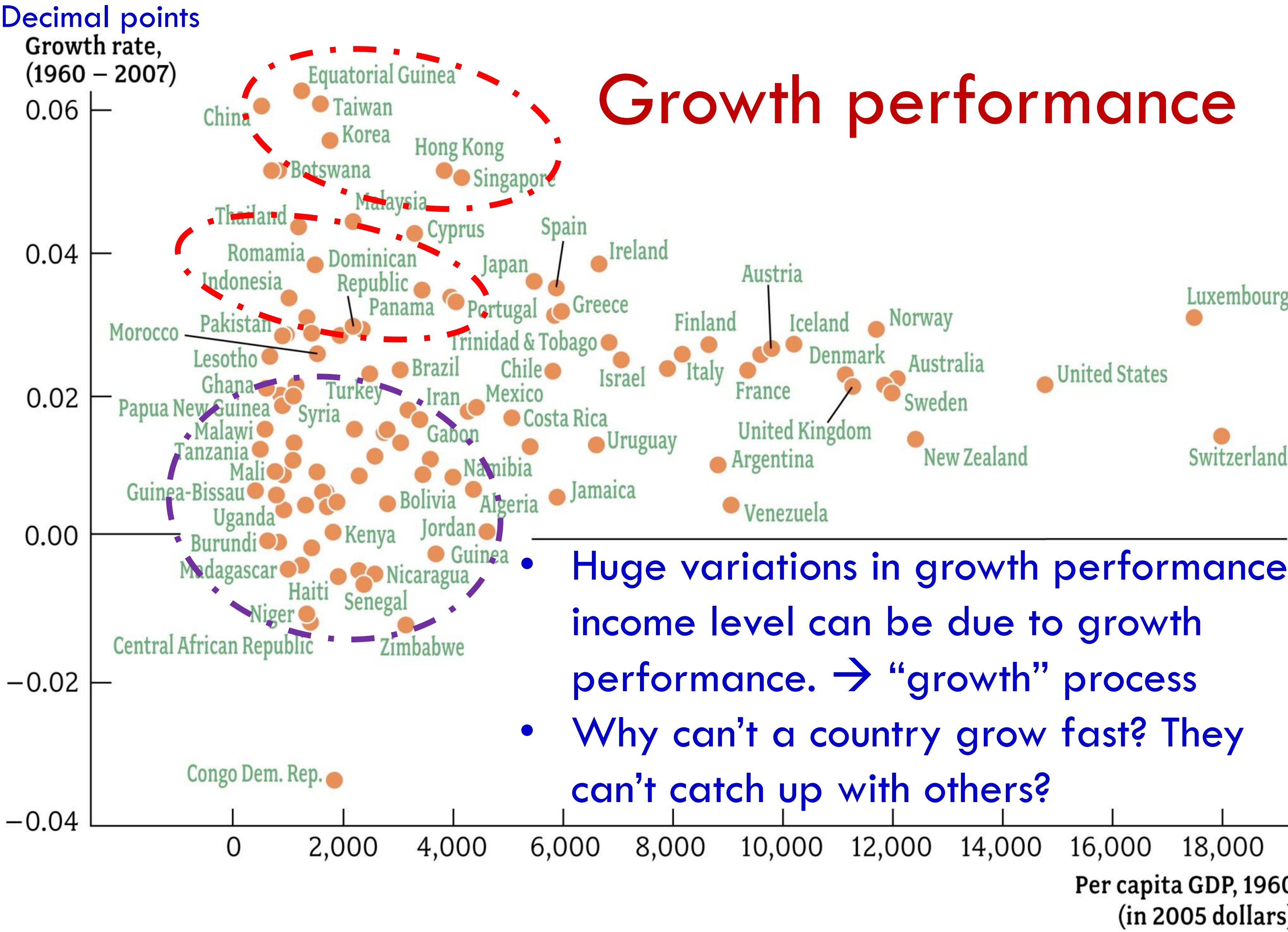


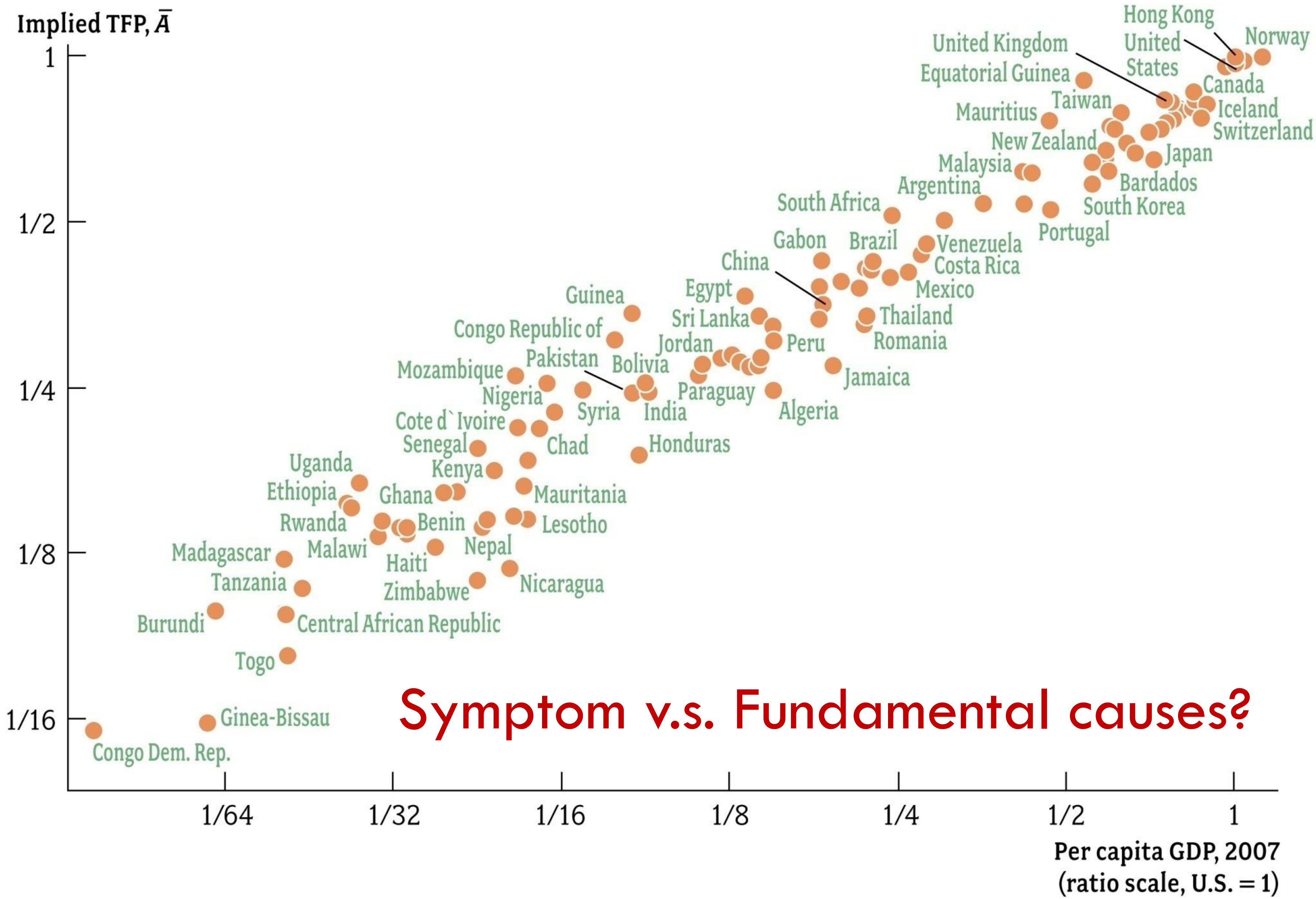
FIGURE 1.1 **Per Capita GDP in Seven Countries, 1870–2006**

Growth performance



- Huge variations in growth performance; income level can be due to growth performance. → "growth" process
- Why can't a country grow fast? They can't catch up with others?

FIGURE 5.9 Growth Rates around the World, 1960–2007



Symptom v.s. Fundamental causes?

FIGURE 4.7 Measuring TFP So the Model Fits Exactly

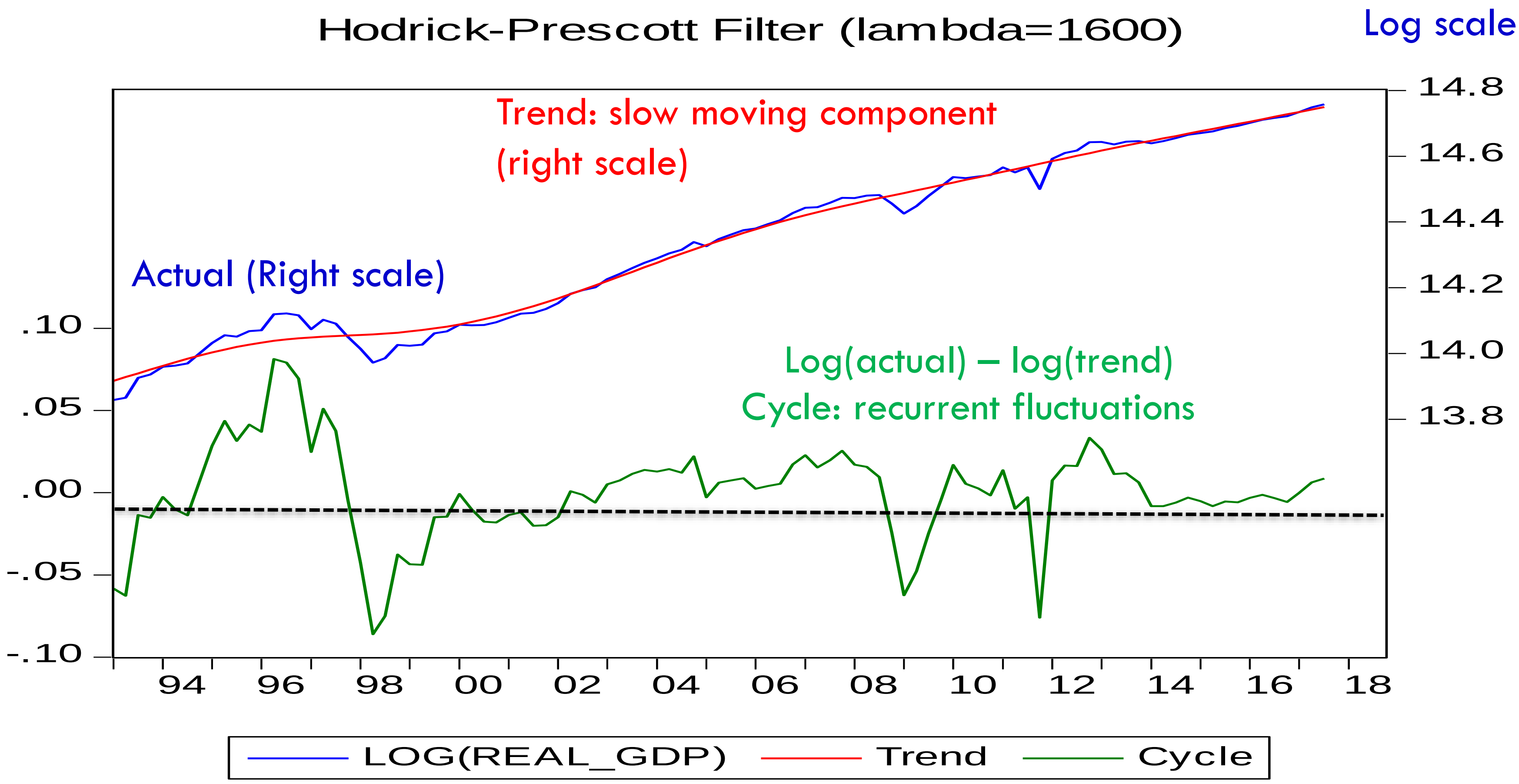
SHORT-RUN OR MEDIUM-RUN BUSINESS CYCLES

- Normally, we observe that country's real GDP grows over time, as the series have exhibited **upward trending pattern.**

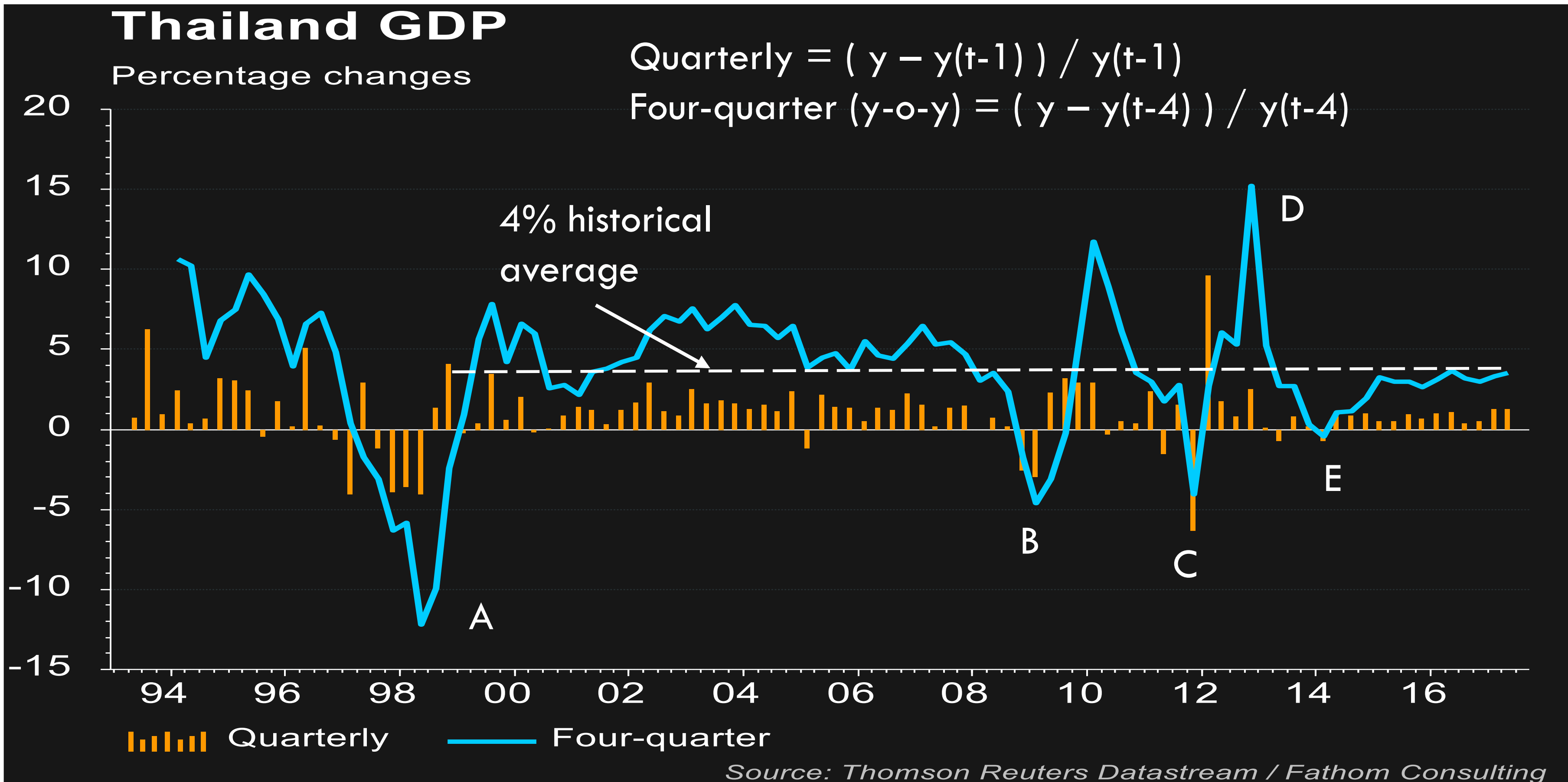
- However, actual series are not growing at a steady fixed rate.
  - From time to time, we observe **a deviation of the actual series from its counterpart (long-term) trend.**

- This phenomena is typically referred to **"business cycles fluctuations".**

THAILAND BUSINESS CYCLES



THAILAND BUSINESS CYCLES



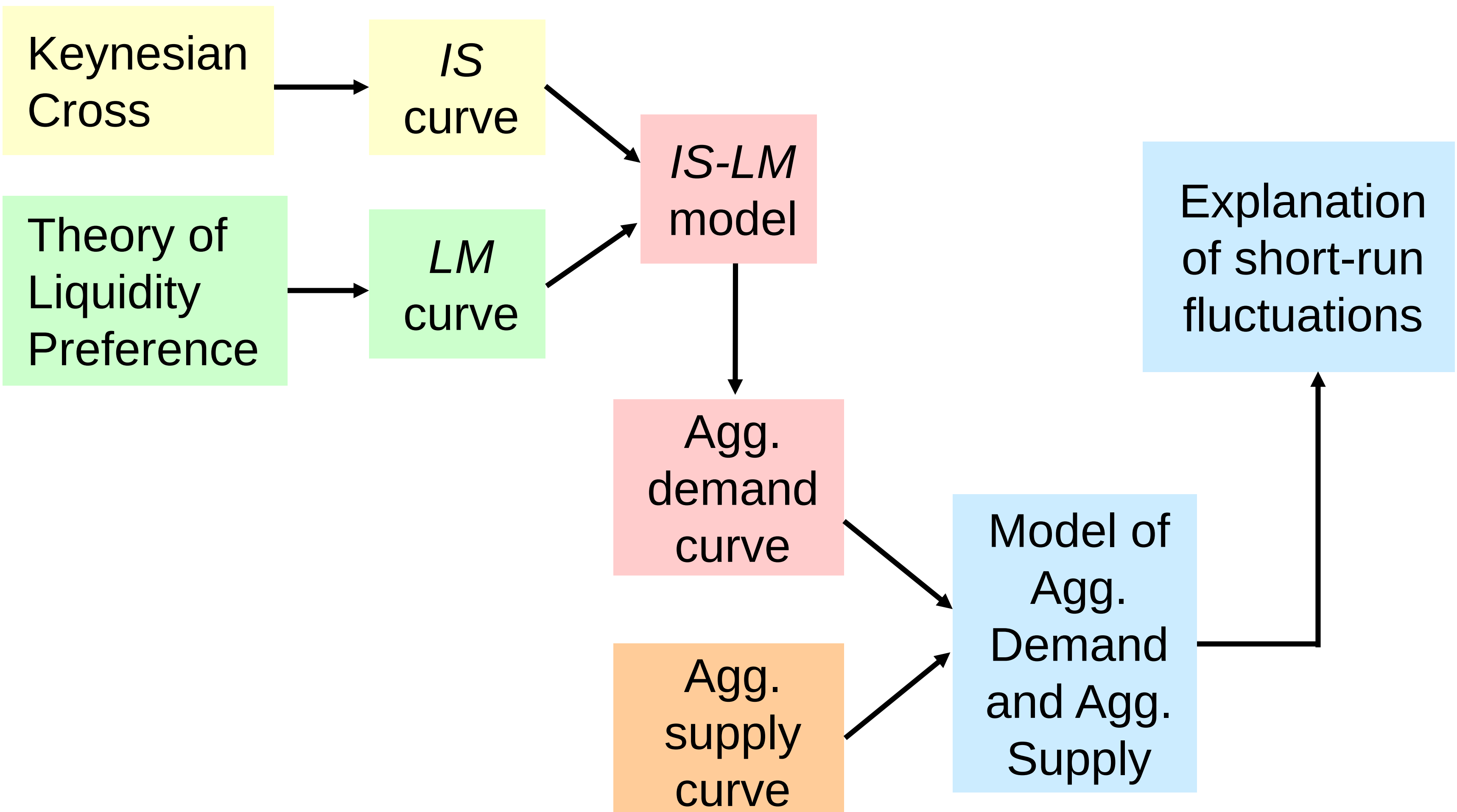
WRAP UP: QUESTIONS IN MACROECONOMICS

	Long-term 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? If yes, how?

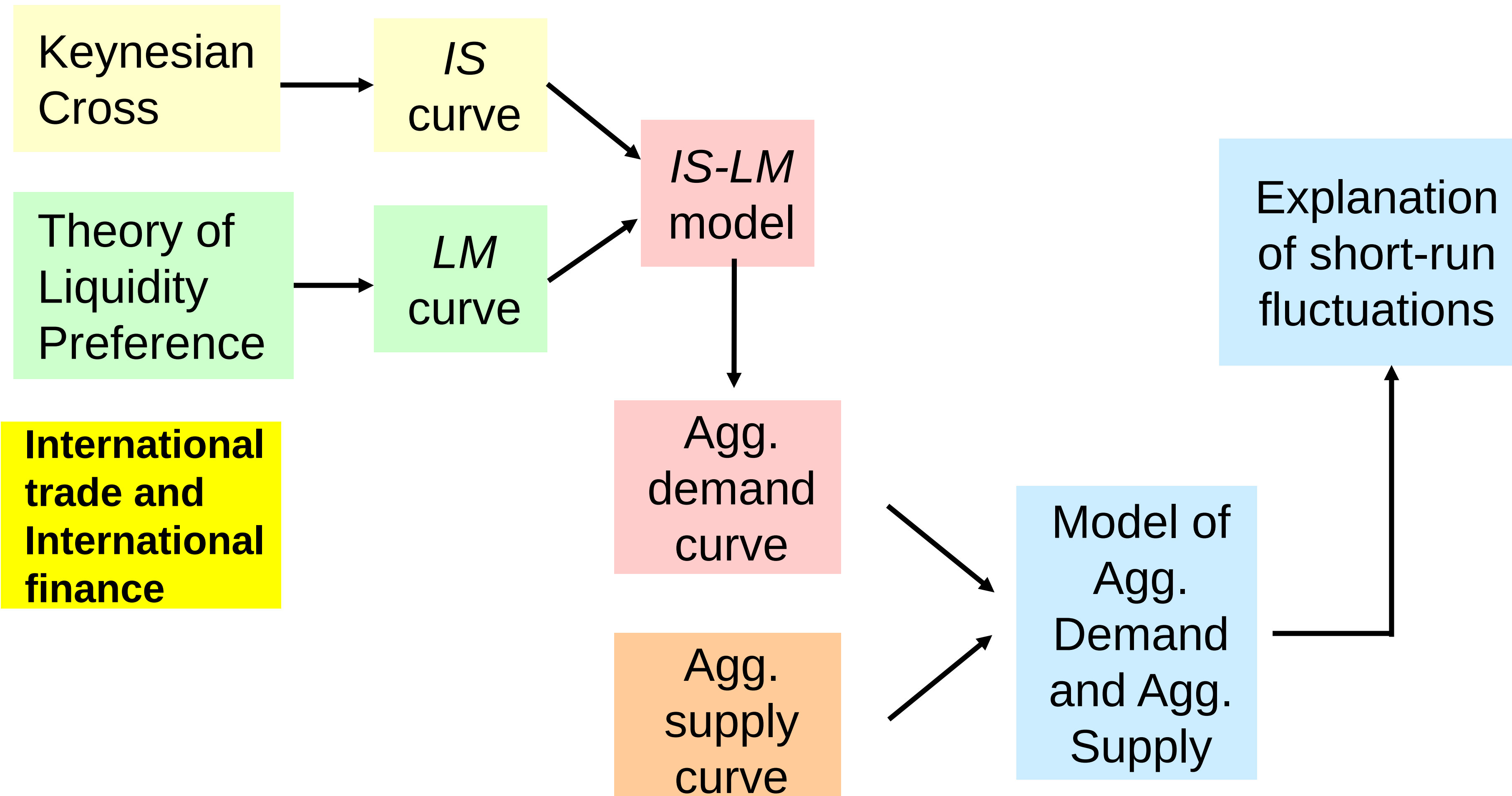
HOW DO I (WE) ORGANIZE THE TEACHING IN THIS COURSE?

- By time horizon! Short → Medium → Long
- **Short-run business cycles**
  - how does the deviation take place at the beginning?
  - Look into the **propagation mechanism of shocks**.
- **Medium-run business cycles**
  - After a deviation, how does the economy **adjust and revert** itself to the long-term trend.
- **Long-run growth process**
  - Understanding the average long-term growth

SHORT-RUN FLUCTUATIONS IN EE212: THE KEYNESIAN SYSTEM

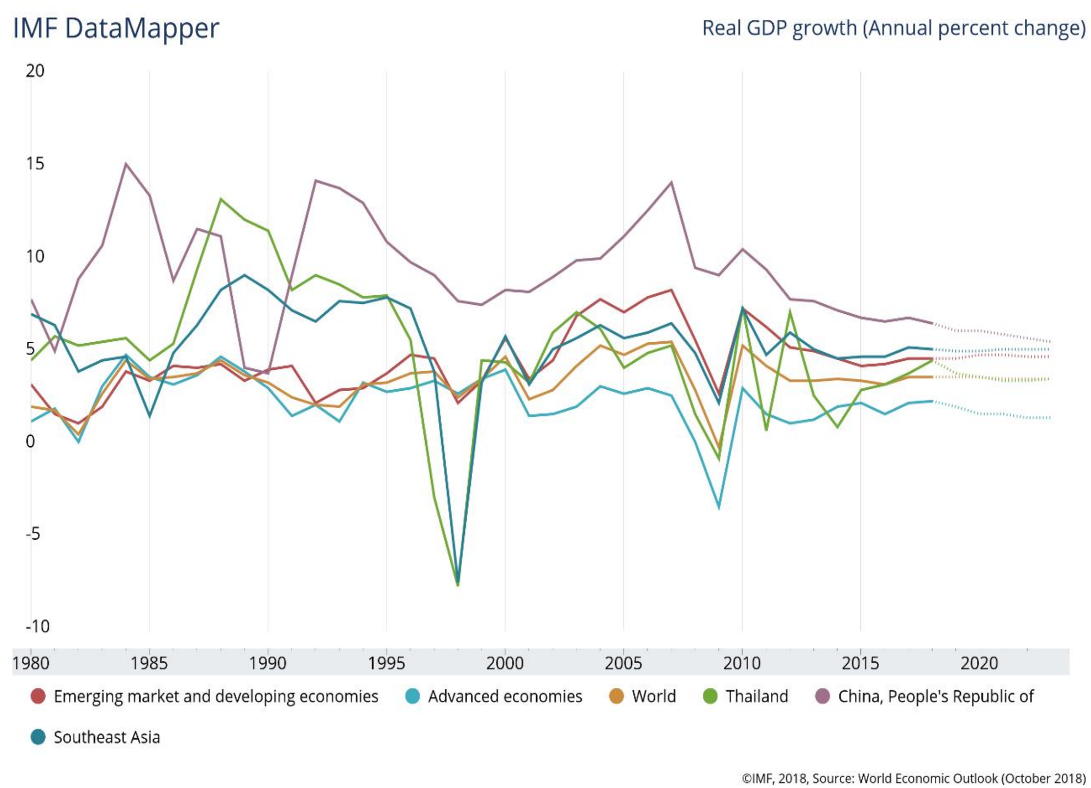


WHAT'S NEW IN EE312 THEN?: *EXTENSIONS* OF KEYNESIAN SYSTEM

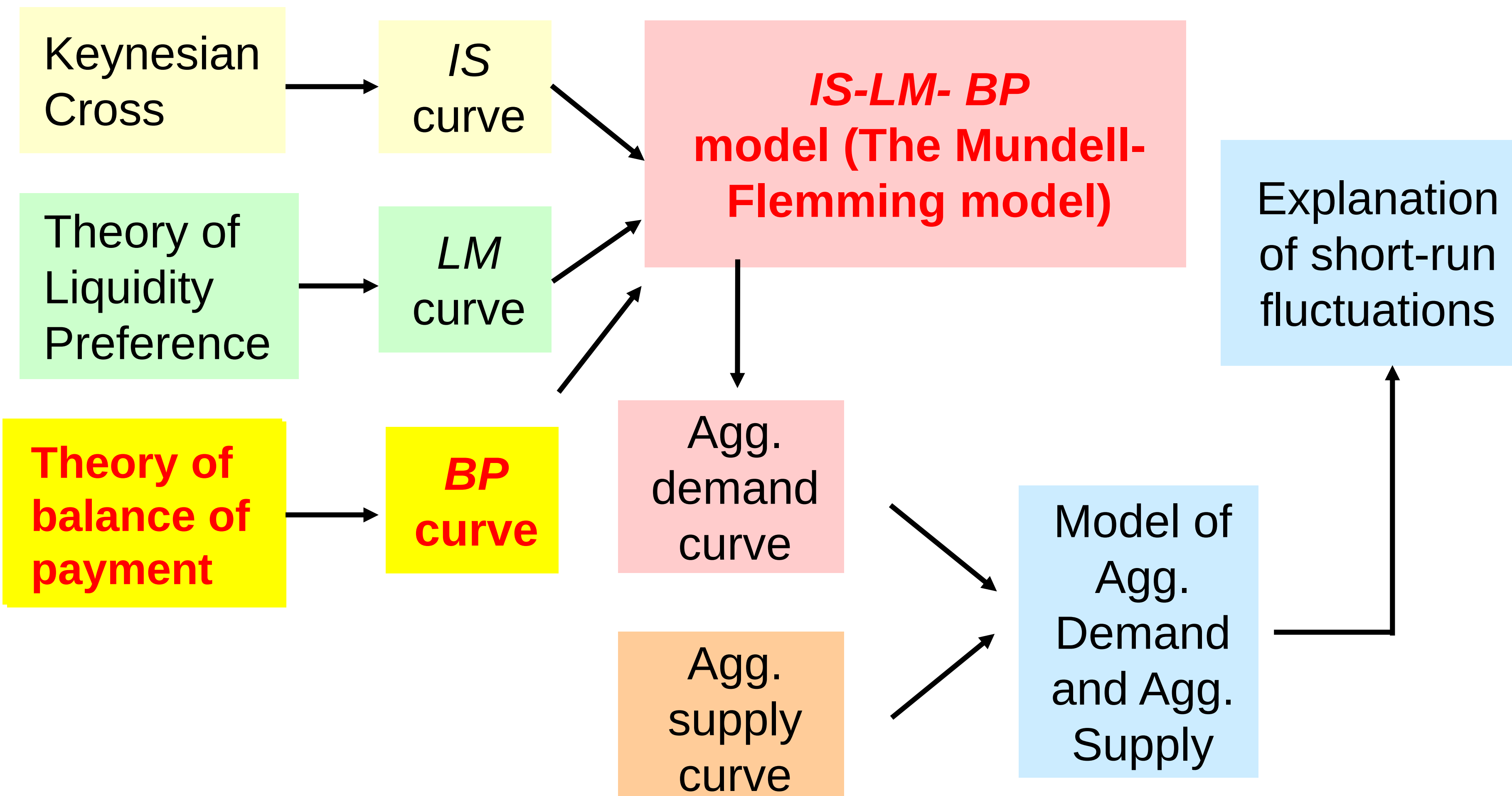


WHAT'S NEW: INTERNATIONAL DIMENSION

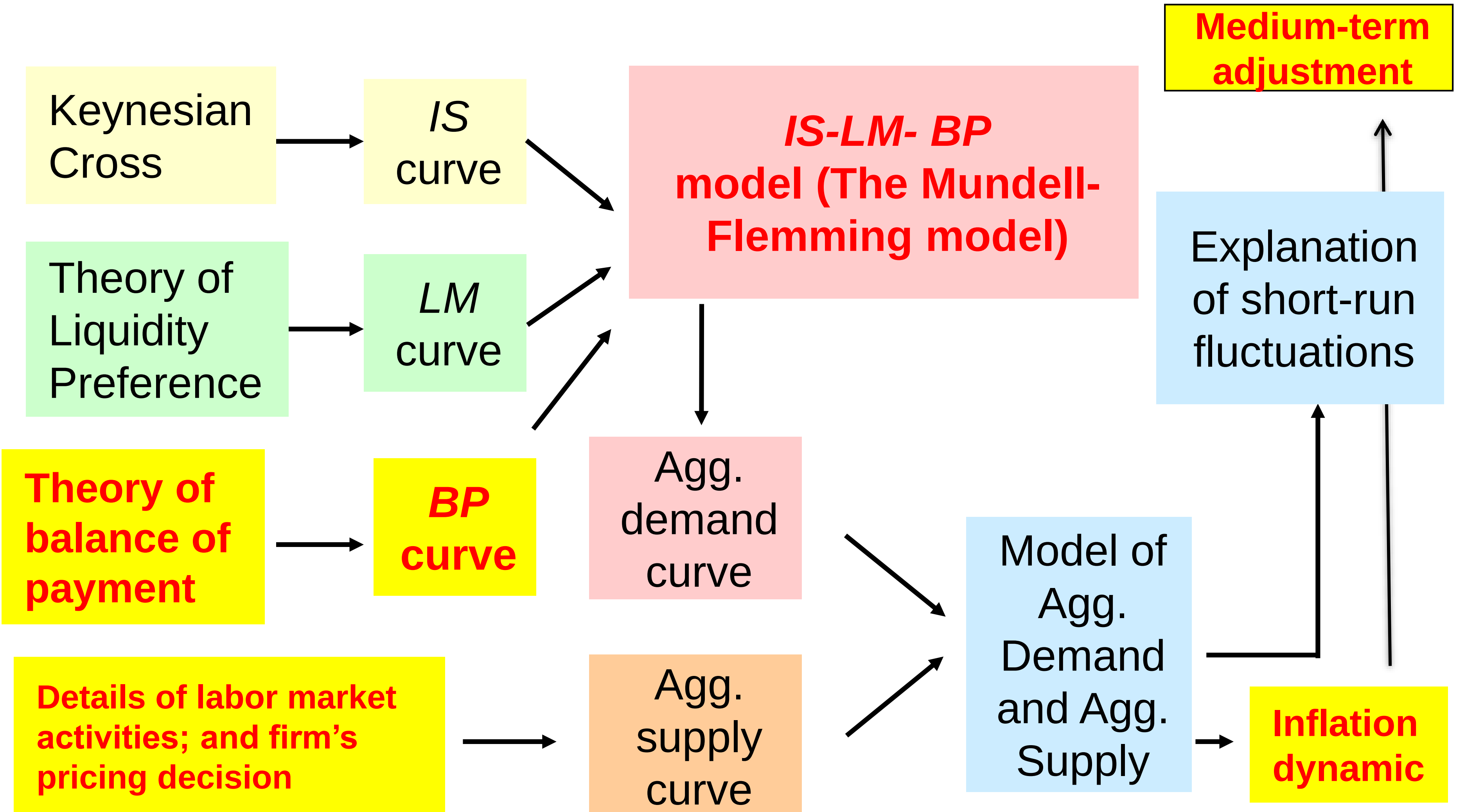
- **Focus more on international dimensions; knowing how to explain the interconnection between global and Thai macroeconomy. Why?**



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



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



WHAT'S NEW IN EE312 THEN? *APPROACHES*

- We present **two different approaches** for the business cycles studies

  - Non micro-foundation approach (traditional)

  - Micro-foundation approach (modern)

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 was not correct.
- However, people didn't care because Keynesian models did a very good job in terms of explaining data, forecasting, and provide policy recommendations; **economy had been stable**.

MICRO-FOUNDATION APPROACH

- Opponents' voices were recognized around 1970s' as the traditional model failed to explain what happened during **the first oil shocks – i.e. the stagflation**.

- This led to the extensive use of micro-foundation approach as the framework for macroeconomics studies; **paradigm shifted since then.**

TRADITIONAL V.S. MICRO-FOUNDATION

- The idea is simple: **macroeconomics is the aggregation of individuals behavior; bottom-up approach.**
  - General equilibrium for macroeconomics

- Having a proper understanding how micro-level units make their decision should allow for better predictions; **models fit the data better.**

TRADITIONAL V.S. MICRO-FOUNDATION

- More flexible than the traditional Keynesian framework because we can **add more ingredients** into the analysis.

- A better way to provide more structurally coherent interpretation on data; **lot of tools in statistics** have been well developed for taking the micro-foundation models to **test with data**.

READING MATERIALS

- Check your syllabus.
  - No single textbook covers everything.
  - Refer to suggested reading for each topic
- Textbook can be purchased at the bookstore.
- Lot of work!… Spend your time wisely in this semester.
- **Check BE moodle.**