

Contents

Part I Background

1	Introduction: Economic Growth and Development in Historical Perspective	3
1.1	The Long View	3
1.2	Accounting for Growth	7
1.3	Development as Well as Growth	9
1.4	Theories of National Economic Development	10
	Reference	19
2	Some Relevant Microeconomics	21
2.1	Why Micro and Macro?	21
2.2	The Core Assumptions of Microeconomics	22
2.3	Supply and Demand Analysis	24
2.4	The Normative Interpretation of Markets	28
2.5	Market Failure	31
2.6	Economic Institutions	35
2.7	General Equilibrium Theory	39

Part II The Terrain of Macroeconomics

3	Accounts and Measurements	49
3.1	The Circular Flow of Income and Credit	50
3.2	The National Income and Product Accounts	55
3.3	Flow of Funds Accounts	63
3.4	The Balance of Payments Accounts	64
3.5	Economic Measurement and Human Well-Being	67
4	The Fundamental Macroeconomic Identities	73
4.1	NIPA and the Relationship of the Parts to the Whole	74
4.2	Financial Balances and Trade	76

5	Macroeconomic Issues: Output, Employment, Inflation, Stability . . .	89
5.1	Output	89
5.2	Employment	94
5.3	Inflation	101
5.4	Financial Stability	109
6	Macroeconomic Adjustment	119
6.1	Varieties of Adjustment	120
6.2	Adjustment to Reduce Inflation: The Case of the United States, 1978–1982	127
6.3	Adjustment to Raise Income and Employment: The Case of the United States, 1982–1983	129
6.4	Adjustment to Overcome a Financial Crisis: The Case of Argentina, 2001–2002	130
6.5	Some Observations About Adjustment	134
7	An Introduction to Money, Banks and Financial Systems	139
7.1	Why Societies Create Money	139
7.2	Money and Liquidity	140
7.3	Measuring Money	142
7.4	Banks: Private Profit and Public Function	143
7.5	Banks as Guardians and Creators of Money	146
7.6	How to Make Money: A Step-by-Step Guide	148
7.7	An Overview of the Financial Industry	151
7.8	Central Banks	154
7.9	The Paradox of Risk	157
8	International Finance: A World of Many Moneys	167
8.1	The Rise and Fall of the Gold Standard	167
8.2	The Retreat from Gold: The Gold-Dollar Standard of Bretton Woods	174
8.3	Floating Exchange Rates and Foreign Exchange Markets	177
8.4	The Role of Reserve Currencies	185
8.5	International Financial Instability from 1982 to the Present	191
9	International Trade in an Interdependent World	199
9.1	Introduction: Disaster and Disruption in an Interconnected World	199
9.2	Patterns of International Trade	201
9.3	What Is International Trade?	203
9.4	Mercantilism, Liberalism and the Debate Over Trade	206
9.5	Ricardo's Theory of Comparative Advantage in International Trade	207
9.6	Friendly Amendments to Ricardo's Theory of International Trade	213
9.7	Limitations of Standard Trade Theory	216

Part III Macroeconomic Theories in Conflict

10	Classical Economics and the Keynesian Challenge	225
10.1	The Classical View of Output and Employment	226
10.2	The Keynesian Challenge	231
11	Equilibrium National Income and Financial Balances in a Keynesian World	241
11.1	Step 1: The Consume Everything Economy	241
11.2	Step 2: Add Savings	243
11.3	Step 3: Add Investment	248
11.4	Step 4: Add Taxes and Government Spending	251
11.5	Step 5: Add Imports and Exports	254
11.5.1	A Word on Macroeconomic Models	256
11.5.2	Equilibrium National Income and Financial Balances	260
12	Keynesian Fiscal Policy	267
12.1	The Political Economy of Keynesian Fiscal Policy	268
12.2	The Economic Basis of Keynesian Fiscal Policy	270
12.3	Taxes or Spending?	274
12.4	Autonomous Versus Discretionary Fiscal Policy	275
12.5	Should the Government Try to Balance Its Budget?	277
12.6	How Large a Deficit?	281
12.7	Fiscal Space	283
13	Central Banks and Monetary Policy	293
13.1	The Purposes of a Central Bank	294
13.2	The Wizard's Wand: Open Market Operations	297
13.3	Monetary Policy Principles	302
13.4	Monetary Policy Versus Fiscal Policy	305
13.5	Monetary and Fiscal Policy Together	307
	Appendix: The IS-LM Model	311
14	Business Cycles	323
14.1	Some Empirical Evidence	323
14.2	Investment Cycles	326
14.3	Policy Cycles	329
14.4	Financial Cycles	333
14.5	Summing Up	339
15	The Crucible of the 1970s	343
15.1	The Life and Times of the Keynesian Consensus	344
15.2	Resistance to Keynesian Policy at the Beginning of the 1970s: Monetarism	345
15.3	The Role of Time in Economic Models	347
15.4	Adaptive Versus Rational Expectations	349

15.5	From Market Failure to Government Failure	351
15.6	Rethinking Unemployment	353
15.7	Stagflation and the Counterrevolution in Economic Theory	355
15.8	The Short Run Phillips Curve and the Natural Rate of Unemployment	357
16	The Rise and Fall of the Great Moderation	363
16.1	What's Moderate About the Great Moderation?	363
16.2	Splitting the Difference: The Short Run and the Long Run	364
16.3	Macroeconomic Modeling During the Great Moderation	366
16.4	Policy Precepts During the Great Moderation	371
16.5	Teaching the New Macroeconomics: The Aggregate Demand–Aggregate Supply Model	376
16.6	Using AS-AD: Supply Shocks, Policy Shocks and the Problem of the Long Run	384
16.7	Against the Grain: Keynesian Dissent from Mainstream Macroeconomics	389
16.8	The Great Moderation in Retrospect	392
17	The Financial Crisis of 2008 and Its Aftermath	395
17.1	The Great Unbalancing	396
17.2	Finance on the Brink	401
17.3	The Meltdown	406
17.4	Crisis Management	408
17.5	The Problems Continue	411
17.6	Crisis in the Eurozone	414
17.7	Did Economics Fail the Test?	422
	References	426
	Glossary	427
	Index	441