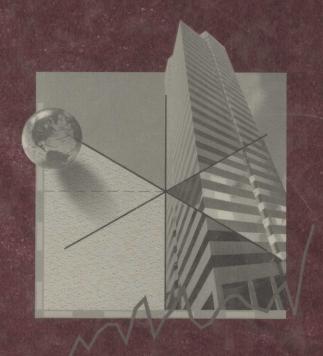
William J. Boyes

# Macroeconomics



Intermediate Theory and Policy

Third Edition

Third Edition



## Macroeconomics

Intermediate Theory and Policy

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Third Edition



# Macroeconomics Intermediate Theory and Policy

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The pace of change throughout the world in the early 1990s has been incredible. The collapse of the Iron Curtain, the emergence of market systems in Eastern Europe and the Soviet Union, the changes in the European Economic Community, the Gulf War, and the meetings between Israel and Arab states are events that were not anticipated by most people in the 1980s. More than ever before, today's economic environment is a global one. Decisions made by individual firms are influenced by events in remote corners of the world. Government actions must take into account the reactions of other governments. We can no longer study macroeconomics in the context of a single isolated country.

Macroeconomists today cannot assume that any economy operates in isolation from the rest of the world. The impact of the United States on its trading partners and the effects of events abroad on the U.S. economy are important parts of our study. During the period from 1945 to 1980, the U.S. economy was relatively insulated from events elsewhere. This is no longer the case. Net exports are now a larger part of the U.S. gross national product than are private savings, and direct foreign investment here more than doubled during the 1980s.

vi Preface

This third edition of *Macroeconomics* responds to these developments by stressing the global nature of macroeconomics early and throughout the text. The balance of payments and exchange rates are introduced in the first chapters, and discussions throughout the text incorporate these topics. Complete chapters are devoted to the macroeconomic links among nations and to open economy macroeconomics.

The theory of macroeconomics has also evolved rapidly. In the past decade, the causes and characteristics of business cycles have surged to the forefront of macro research. In addition, business cycles and economic growth are more closely linked than at any time since the Great Depression. The new macroeconomics of cycles and growth takes up a major portion of this third edition. Business cycles are the subject of two full chapters, and another chapter is devoted to economic growth.

## Focus on Applications

Albert Einstein once said that everything should be made as simple as possible, but not more so. This edition has been written with that warning in mind. The length, coverage, and style of the book have been influenced by the author's many years of teaching intermediate and M.B.A. students who have a wide range of interests and talents. Such students are not interested in spending several hundred pages on theoretical developments before they can move on to realworld issues. The objective of this book continues to be holding the interest of all students without losing the theoretical foundations necessary to understand macroeconomics. In this third edition, the practical realities of global macroeconomics, the business cycle, and economic growth are brought to the fore. For instance, the practice and institutions of monetary policy in a global setting are the focus of two chapters. The business cycle is discussed not only by considering the new classical and new Keynesian theories, but also by examining the actual behavior of economic variables. In fact, the last section of Chapter 15 shows how a student can follow the pattern of important economic variables by reading the newspaper.

The realities of policymaking are clearly distinguished from the theory of policymaking. Chapter 18 is the first chapter written about public choice in a macro text; it shows how policy decisions are actually made in the United States. Rather than assuming that government spending and taxation are used in the public's interest to control the economy, and solve special problems, this chapter considers why policymakers prefer deficits and inflation to recession and unemployment and why government deficits and inflation have existed for the past two decades.

Preface vii

## Structure of the Chapters

Each chapter begins with a What to Expect section that introduces an interesting example of that chapter's topic. The section is followed by a list of Key Questions that focus the discussion. The answers to these questions are provided in the chapter's Summary section. Key Terms are indicated throughout the text in bold type, are listed at the end of each chapter (along with the page number where they first appeared), and are collected in a Glossary at the end of the book.

Review problems and exercises are provided at the end of each chapter. The exercises are constructed so that the early ones help the student review the material. The later exercises require extension and applications of that material.

## Chapter-by-Chapter Organization

Part 1 (Chapters 1 and 2) is introductory. It explains why people study macroeconomics and discusses the relationship of macroeconomics to individual lives. These chapters introduce the topics of inflation, unemployment, business cycles, growth, exchange rates, and the balance of payments. Part 2 (Chapters 3–7) develops the basic aggregate demand–aggregate supply model. Chapter 3 covers the fixed-price, aggregate expenditures framework, while Chapter 4 develops the IS–LM model. In Chapter 5, those two models are incorporated to generate the aggregate demand curve. Aggregate supply is the subject of Chapter 6, which covers expectations, efficiency wages, and other topics related to labor markets. Aggregate demand and supply are then combined in Chapter 7 to discuss inflation, unemployment, and output determination.

Part 3 (Chapters 8 and 9) is devoted to controversies and schools of thought. The relationship between the Phillips curve and the AD-AS model is examined, along with the debate over whether there is an exploitable inflation-unemployment tradeoff.

Part 4 of the text (Chapters 10–13) covers business cycles and economic policy. Purchasing power parity, arbitrage, interest rate parity, exchange rate determination, and exchange rate regimes are discussed, along with monetary and fiscal policy in an open economy. Part 5 (Chapters 14 and 15) considers economic growth and business cycles, while Part 6 is devoted to extensions of topics treated in the first fifteen chapters. Consumption and investment theories are reconsidered in Chapters 16 and 17 and in Chapter 18 the government and public choice are examined.

## Student Study Guide

A Study Guide has been prepared by Barbara M. Yates and Raymond J. Farrow of the Albers School of Business at Seattle University. For each text chapter, the Study Guide includes an overview, review questions, and problems. Answers are provided for all questions and problems.

#### ▼ Instructor's Manual

The Instructor's Manual contains, for each chapter, an outline, suggested answers to the review questions, and multiple-choice questions.

## Acknowledgments

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Preface ix

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The students in my M.B.A., intermediate macroeconomics, and honors principles courses provided many lessons that are reflected in this text.

William J. Boyes

## Contents in Brief



#### Introduction 1

- 1 Introduction and Overview 3
- 2 Measuring Key Macroeconomic Variables 25

## 2 The Basic Macroeconomic Model 51

- 3 Aggregate Expenditures 53
- 4 Money and Aggregate Expenditure: The IS-LM Framework 84
- 5 Aggregate Demand 111
- Appendix Algebraic Presentation of Aggregate Demand 129
- 6 Aggregate Supply 138
- 7 Aggregate Demand and Supply 157 Appendix The Algebra of Aggregate Supply and Aggregate Demand 177
  - 3 Controversies and Issues of Aggregate Demand and Supply 181
- 8 The Evolution of Economic Thought 183
- 9 Inflation, Unemployment, and Business Cycles 204

## 4 Business Cycles and Economic Policy 229

- 10 Links Among Nations 231
- 11 Money, Banking, and Monetary Policy 252
- 12 Fiscal Policy 279
- 13 Macroeconomic Policy in an Open Economy 306

#### 5 Cycles and Growth 331

- 14 Economic Growth 333
- 15 Business Cycles 357

#### 6 Extensions 387

- 16 Consumption 389
- 17 Investment 408
- 18 Government: Public Choice and Economic Policy 428

Glossary 451

Author Index 461

Subject Index 463

### **Contents**



## Part 1 Introduction 1

#### 1 Introduction and Overview 3

#### WHY STUDY MACROECONOMICS? 4

WHAT ARE THE PRIMARY TOPICS OF STUDY IN MACROECONOMICS? 5
Why Care About Business Cycles? 7 Economic Growth 12

#### HOW DO WE STUDY BUSINESS CYCLES AND ECONOMIC GROWTH? 14

THE ECONOMIC APPROACH 19

Models 21 Common Errors of Analysis 22

2 Measuring Key Macroeconomic Variables 25

GROSS NATIONAL PRODUCT 26

Definition of GNP 26 Alternative Approaches to Measuring GNP 28

OTHER MEASURES OF OUTPUT AND INCOME 32
From GNP to Disposable Personal Income 32 Gross Domestic Product (GDP) 33

xiii

xiv Contents

REAL AND NOMINAL GNP 34

Price Increases and GNP 34 Calculating Real GNP 34

THE INTERNATIONAL SECTOR 36

Double-Entry Bookkeeping 36 The Current Account 37 The Capital Account 37 Debtor and Creditor Nations 38

MEASURES OF INFLATION 38

Calculating the CPI and the PPI 40 Problems with Price Indices 41

THE UNEMPLOYMENT RATE 43

Calculating the Unemployment Rate 43 Problems with the Unemployment Rate 44

**EXCHANGE RATES 45** 

Part 2

The Basic Macroeconomic Model 51

3 Aggregate Expenditures 53

AGGREGATE EXPENDITURES (AE) 54

CONSUMPTION 55

The Marginal Propensity to Consume (MPC) 55 Saving 59

OTHER DETERMINANTS OF CONSUMPTION 60

Real Wealth 60 Expectations 61 Demographics 61 Interest Rates 62 Prices 62

INVESTMENT 62

Investment and Income 63 The Determinants of Investment 63

GOVERNMENT PURCHASES 66

NET EXPORTS 66

Exports 67 Imports 67 Net Exports 68

DETERMINATION OF REAL OUTPUT 70

The AE Function 70 Income and Output 71 Changes in Spending and the Determination of Output 74 The Multiplier 75 Real World Complications 78

4 Money and Aggregate Expenditure: The IS-LM Framework 84

THE INTEREST RATE AND THE COMMODITY MARKET 85

CHANGES IN THE POSITION OF THE IS CURVE 89

Shifts 89 The Multiplier 91 Slope Changes 91

Contents XV

#### THE MONEY MARKET 93

Demand for Money 93 Deriving the LM Curve 95 Changes in the Position of the LM Curve 96 Shifts 97 Slope Changes 98

EQUILIBRIUM IN THE COMMODITY AND MONEY MARKETS: IS AND LM 98 Alternative Shapes of the IS and LM Curves 100 Monetary and Fiscal Policy 102

#### IS, LM, AND THE FOREIGN SECTOR 105

#### 5 Aggregate Demand 111

#### REAL VERSUS NOMINAL VALUES 112

The IS Curve 112 The LM Curve 114

THE MONEY MARKET AND AGGREGATE DEMAND 117
The Interest Rate Effect 117 Aggregate Demand from Aggregate Expenditures 119

THE SLOPE OF THE AGGREGATE DEMAND CURVE 121
The Wealth and International Trade Effects 121
The Sum of the Price Level Effects 122

#### SHIFTS OF THE AD CURVE 124

#### Appendix: Algebraic Presentation of Aggregate Demand 129

#### THE AE FUNCTION 129

#### FEEDBACK EFFECTS FROM THE MONEY MARKET 130

The IS Function 131 Money Market and the LM Function 131 The IS and LM Together 133

#### THE AGGREGATE DEMAND FUNCTION 133

The Wealth Effect 133 The International Trade Effect 133 The Interest Rate Effect 135 The AD Function with the Interest Rate 135

#### COMPARISON OF MULTIPLIERS 136

#### 6 Aggregate Supply 138

THE TOTAL PRODUCT CURVE AND THE LABOR MARKET 139
The Total Product Curve 139 The Labor Market 139 From Employment to Output 142

#### LABOR MARKET REALITIES 144

Compensating Wage Differentials 144 Human Capital 145 Efficiency Wages 146 Long-Term Contracts 147 Imperfect Information 148

THE LONG- AND SHORT-RUN AGGREGATE SUPPLY CURVES 148

Sticky Adjustments in the Labor Market 148 Comparison of Long-Run and Short-Run AS Curves 150 Relationship Between Short- and Long-Run AS Curves 151

Potential Output and Economic Growth 152

xvi Contents

#### 7 Aggregate Demand and Supply 157

AGGREGATE DEMAND 158

Shifts in the AD Curve 158 The Slope of the AD Curve 158

AGGREGATE SUPPLY 159

Slope of the AS Curve 159

Shifts of the AS Curve 160

EQUILIBRIUM: COMBINING AGGREGATE DEMAND AND SUPPLY 162

Short Run Versus Long Run 162

Economic Shocks 165

**How Expectations** 

Form 167 Adaptive Expectations 169 Rational Expectations 172

Appendix: The Algebra of Aggregate Supply and Aggregate Demand

ADAPTIVE EXPECTATIONS 178

RATIONAL EXPECTATIONS 179

#### Part 3

Controversies and Issues of Aggregate Demand and Supply

The Evolution of Economic Thought

AGGREGATE DEMAND AND SUPPLY AND THE SCHOOLS OF THOUGHT 184

CLASSICAL ECONOMICS 186

Say's Law 187 The Role of Money 187

KEYNESIAN ECONOMICS 188

Wage and Price Rigidities 188

The Liquidity Trap 190

The Real Balance

Effect 192

MONETARISM 193

The Role of Money 193

The Role of Government Policy 194

NEW CLASSICAL ECONOMICS 195

The Role of Expectations 196

Unemployment in the New Classical Model 196

NEW KEYNESIAN THEORY 198

Output Price Rigidities 198 Input Price Rigidities 199

**Policy Implications** 

of the New Keynesian School 199

COMPARISONS OF THE SCHOOLS OF THOUGHT 200

Inflation, Unemployment, and Business Cycles 204

**BUSINESS CYCLES 205** 

Phases of the Business Cycle 206 Pattern of Cycles in the United States 207 Contents xvii

#### UNEMPLOYMENT 207

Types of Unemployment and Full Employment 208 ment 209

Costs of Unemploy-

#### **INFLATION 209**

Types of Inflation 210

Costs of Inflation 211

#### THE PHILLIPS CURVE 213

Does an Inflation-Unemployment Tradeoff Exist? 215 Short-Run Versus Long-Run Tradeoffs 215 Causes of Shifts of the Phillips Curve 219

#### AD-AS AND BUSINESS CYCLES 220

Aggregate Demand Changes 220

Aggregate Supply Changes 224

#### Part 4

Business Cycles and Economic Policy

#### 10 Links Among Nations 231

THE SOURCES OF LINKS AMONG NATIONS 232

Arbitrage 232 Purchasing Power Parity 233 Interest Rates 237

#### EXCHANGE RATE DETERMINATION 240

The Foreign Exchange Market 241 Exchange Rate Systems 242 Exchange Rate Systems and Policy 244 The Choice of an Exchange Rate System 249

#### Money, Banking, and Monetary Policy 252

#### THE MONEY SUPPLY 253

The M1 Monetary Aggregate 253 The M2 Monetary Aggregate 254 The M3 Monetary Aggregate 255 Why So Many Definitions? 255 International Reserves 255

#### FUNCTIONAL RESERVE BANKING 256

High-Powered Money and the International Sector 258 Functional Reserve Banking and the Money Multiplier 259

#### U.S. DEPOSITORY INSTITUTIONS 260

Bank Failures and the FDIC 260 International Banking 261

#### THE FEDERAL RESERVE SYSTEM 262

Structure of the Fed 262 Functions of the Fed 263

#### IMPLEMENTING MONETARY POLICY 264

Intermediate Targets 264 Procedures of Policy 268 From FOMC Directives to GNP 270

xviii Contents

#### FOREIGN EXCHANGE MARKET INTERVENTION 272

Exchange Rate Systems and Monetary Policy 272 Mechanics of Intervention 275 Sterilization 275

#### 12 Fiscal Policy 279

#### THE THEORY OF FISCAL POLICY 280

Government Purchases and the AD Curve 280 Taxes and Aggregate Demand 281 Taxes and Aggregate Supply 282 Borrowing 283 Monetization 286 Fiscal Policy and Exchange Rate Systems 287

#### THE FISCAL POLICY PROCESS 289

The Acts 289 Deficits and Surpluses 289 Deficits and Debt 293
Deficits and Interest Rates 293 Interest Payments 293 Deficits and Trade:
The Twin Deficits 295

#### BUDGETARY FACTS 296

Revenues 296 Expenditures 297

#### FISCAL POLICY IN DIFFERENT COUNTRIES 300

Government Spending 301 Taxation 302

#### 13 Macroeconomic Policy in an Open Economy 306

#### AGGREGATE DEMAND 307

The Slope of the *AD* Curve 307 Monetary Policy and Autonomous Spending Changes Under Fixed Exchange Rates 309 Monetary Policy and Autonomous Spending Changes Under Flexible Exchange Rates 310

#### AGGREGATE DEMAND AND AGGREGATE SUPPLY 311

Adjustments to Demand Shocks 311 Adjustment to Supply Shocks 314 Accommodation and Alternative Policies 315

#### POLICY COORDINATION ISSUES 318

Vicious Circles 319 Beggar-Thy-Neighbor Policies 319 Bubbles and an Overvalued Dollar 322 Policy Coordination and Strategic Behavior 323

## Part 5 Cycles and Growth 331

#### 14 Economic Growth 333

#### WHAT IS ECONOMIC GROWTH? 334

Growth and Per Capita Income 334 Growth and Standards of Living 336

DETERMINANTS OF GROWTH AND SUPPLY-SIDE POLICIES 337 Labor 337 Capital 341 Land 343 Technology 345 Contents xix

THE FACTS OF GROWTH 346

Growth and Productivity 346 The U.S. Productivity Slowdown 348

POLICIES OF GROWTH 351

Political Factors 351 Policies Within Industrial Nations 352 Strategies for Developing Countries 354

15 Business Cycles 357

THE AD-AS MODEL AND THE BUSINESS CYCLE 358
AD Shocks 358 AS Shocks 360 Impulse and Propagation 360

BUSINESS CYCLE FACTS 363

Amplitudes and Frequency 364 Causes of Differences 366 The Contribution of the Components of Spending to Cycles 367

BUSINESS CYCLE CONTROVERSIES 370

Business Cycle Theories 373 One Impulse, None, or Many? 375 Evidence and the Solow Residual 376

READING AND INTERPRETING DATA 378

Part 6
Extensions 387

16 Consumption 389

THE SIMPLE CONSUMPTION FUNCTION 390
Short-Run Versus Long-Run Consumption Functions 390 Consumption
Data 391

THE PERMANENT INCOME AND LIFE CYCLE THEORIES 394

The Permanent Income Theory 394 The Life-Cycle Theory 395 Implications for Monetary and Fiscal Policy 397 An Example 398 AD-AS and Consumption 399

SAVING 399

Foreign Saving Flows 401 Policy Toward Saving 402

17 Investment 408

AN OVERVIEW OF INVESTMENT 409

THEORY OF BUSINESS FIXED INVESTMENT 411

The User Cost of Capital 412 Tax Laws and Investment 416 Lags in the Investment Process 416 Summary of the Theory of Business Fixed Investment 417