

The macro-economy in the short run: introduction

Macroeconomic Policy API 5125

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Lecture 4

Objectives for this block of classes

as listed in the course outline

- 1 Business cycles
- 2 Spending and output in the short run
- 3 Money and monetary policy
- 4 Fiscal policy
- 5 The “open” economy

Today's class

- 1 Review of inflation
- 2 The Business Cycle
- 3 Digression on the Classical Model

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Using the Consumer Price Index to calculate inflation rates

Table: Consumer Price Index from Problem 2, page 149

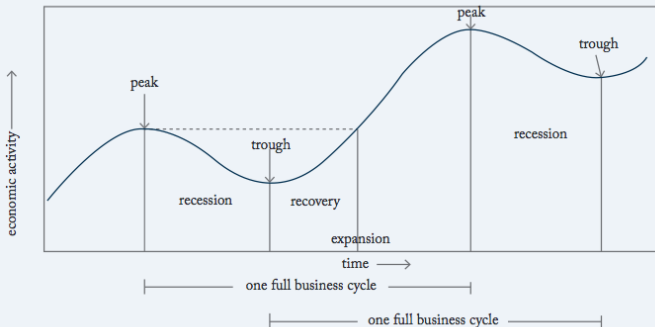
	Consumer Price Index	Inflation Rate (%)
2002	100.0	
2003	102.8	
2004	104.7	
2005	107.7	
2006	109.1	
2007	111.5	
2008	114.1	
2009	114.4	
2010	116.5	

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Table: Consumer Price Index from Problem 2, page 149

	Consumer Price Index	Inflation Rate (%)
2002	100.0	
2003	102.8	2.8
2004	104.7	1.8
2005	107.7	2.9
2006	109.1	1.3
2007	111.5	2.2
2008	114.1	2.3
2009	114.4	0.3
2010	116.5	1.8

Trends and cycles in economic activity



A four sector model

A labour market and a goods market represent the “real” sector, and the money market and a loanable funds market represent the financial sector. Together they explain a number of (endogenous) variables.

Variable Definitions

- W is the money (or nominal) wage rate, and L is employment
- Q is real output (GDP)
- P is the price level, \bar{M} is the exogenously given money supply, and k is the velocity of money
- r is the interest rate, C is consumption and S is Savings

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Turning Points: Business Cycles in Canada since 1926
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