

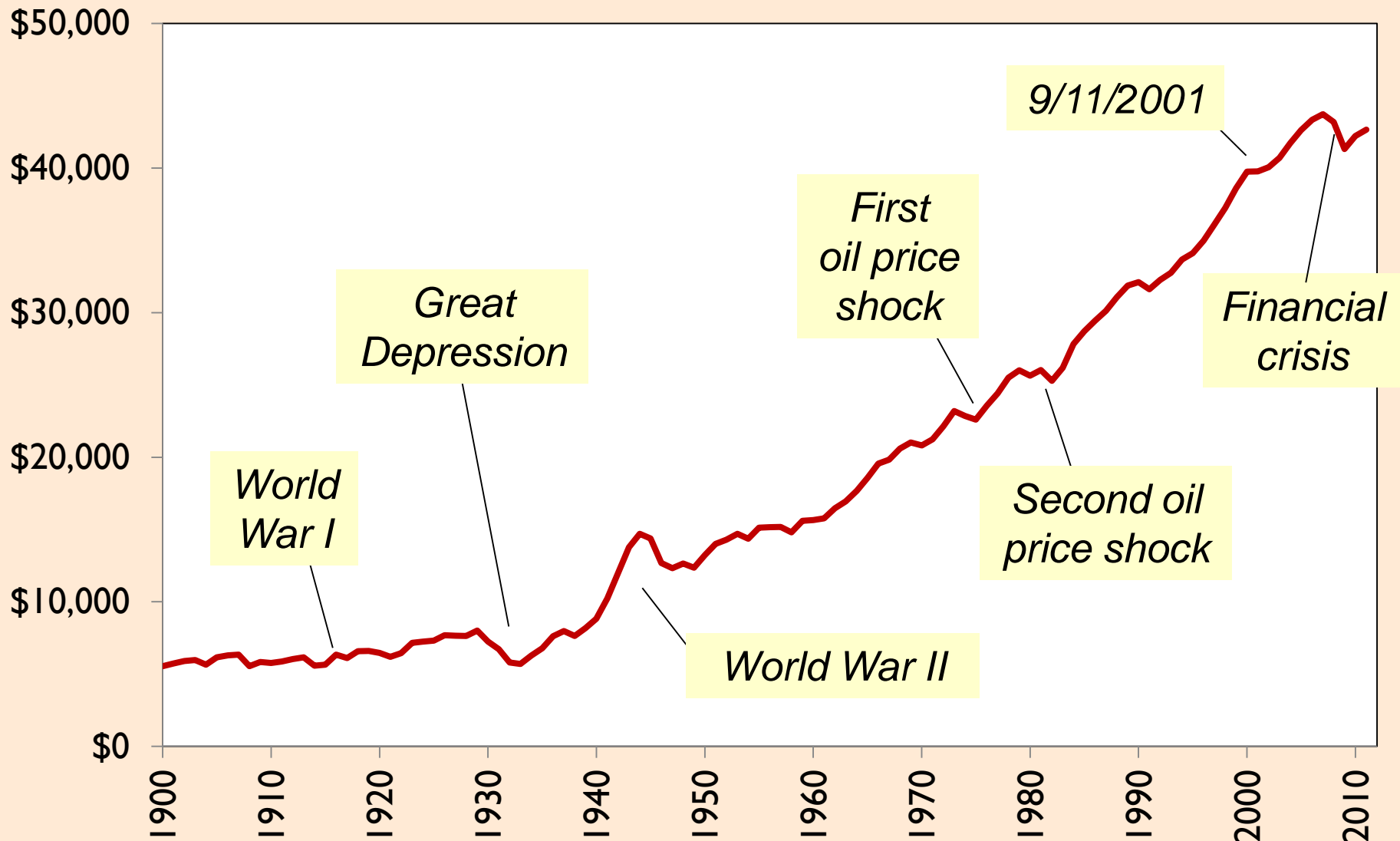
ECON 3010
Intermediate Macroeconomics

Chapter 1
The Science of Macroeconomics

Macroeconomic Issues

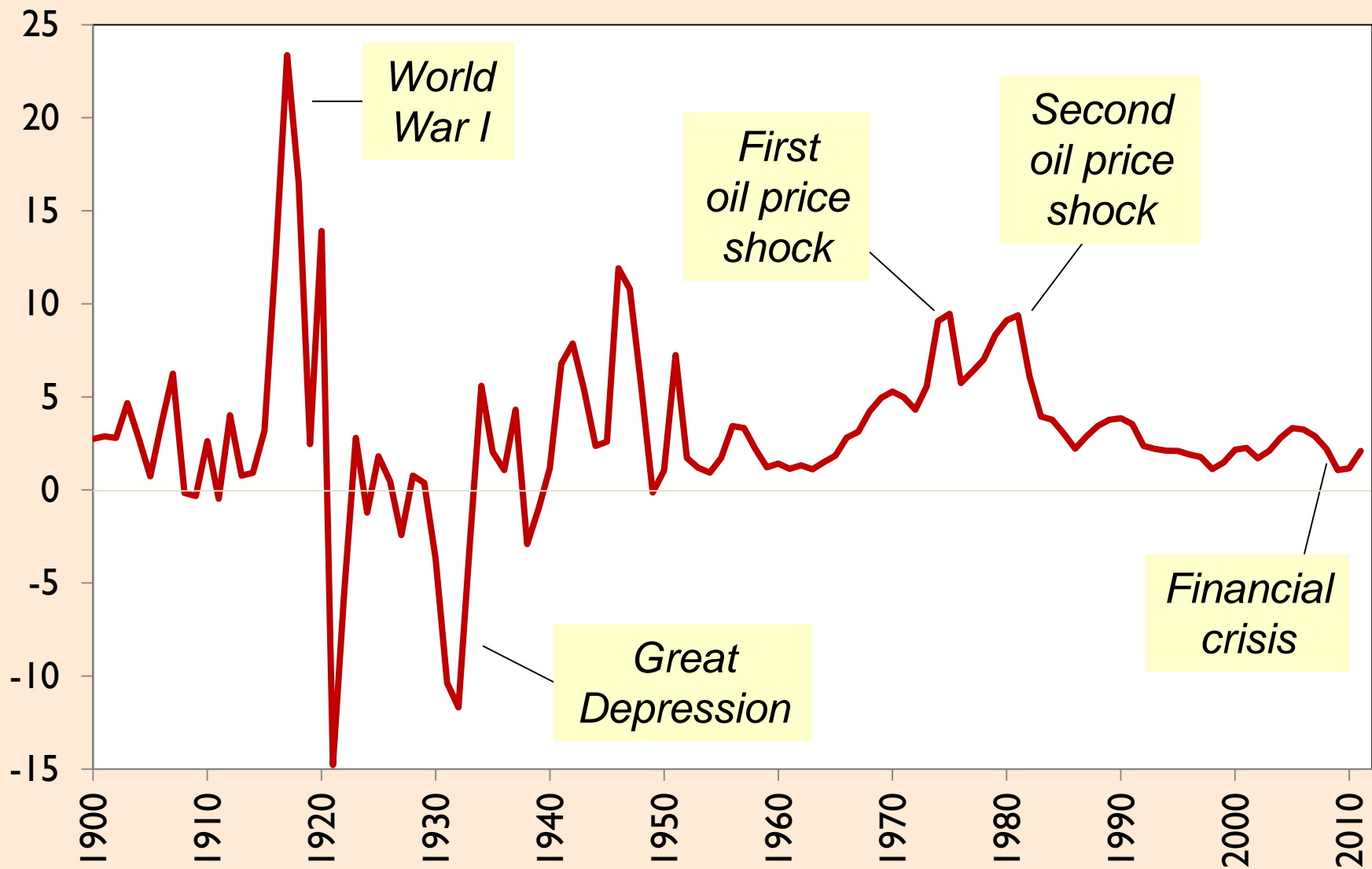
- Why does the cost of living keep rising?
- Why are millions of people unemployed?
- Why are there recessions? Can policymakers do anything? Should they?
- What is the government deficit? How does it affect the economy?
- Why does the U.S. have a large trade deficit?

U.S. Real GDP per capita (2005 dollars)

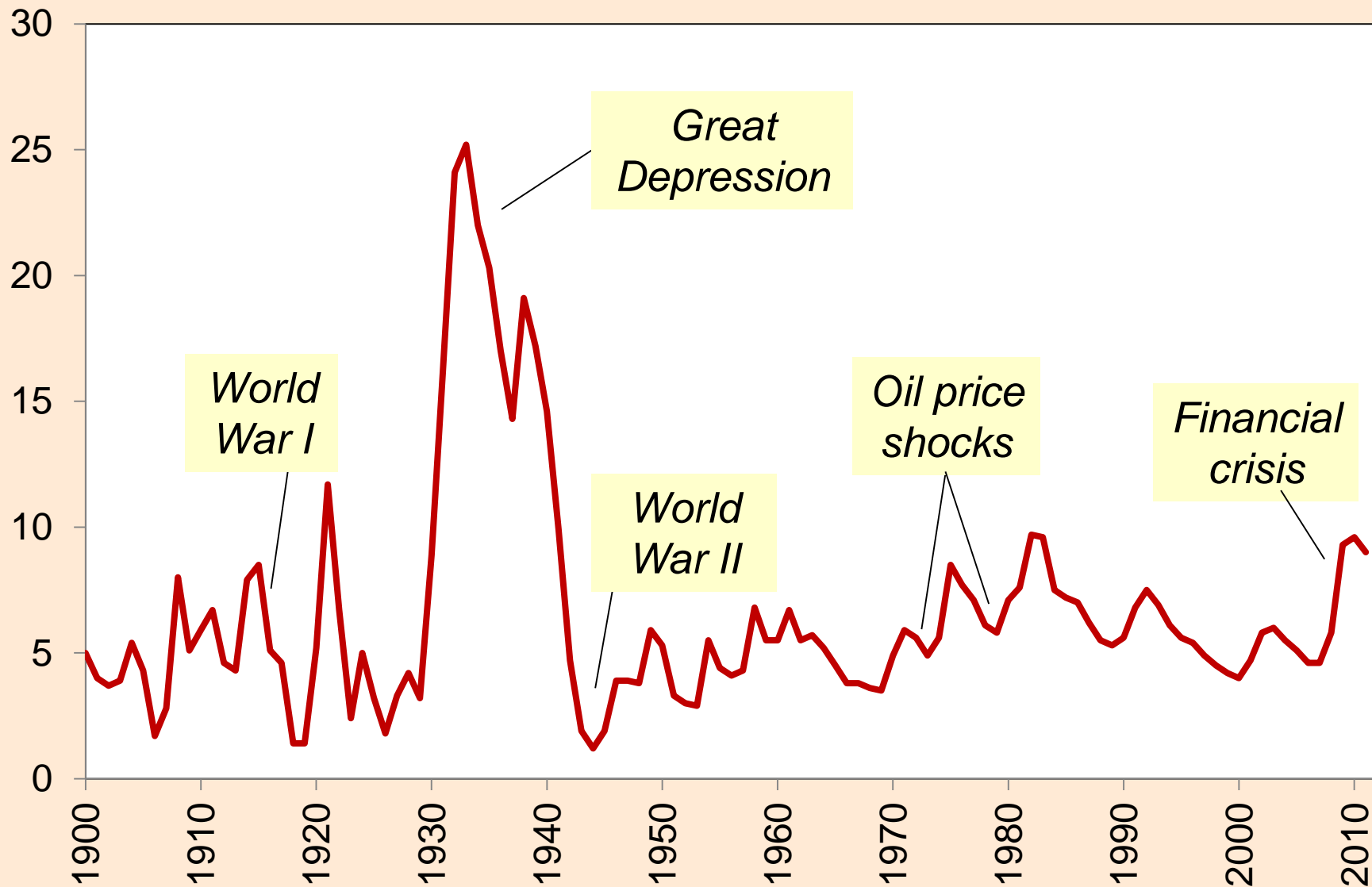


U.S. Inflation Rate

(% per year)



U.S. Unemployment Rate (% of labor force)



Economic models

...are simplified versions of a complex reality

- irrelevant details are stripped away

...are used to

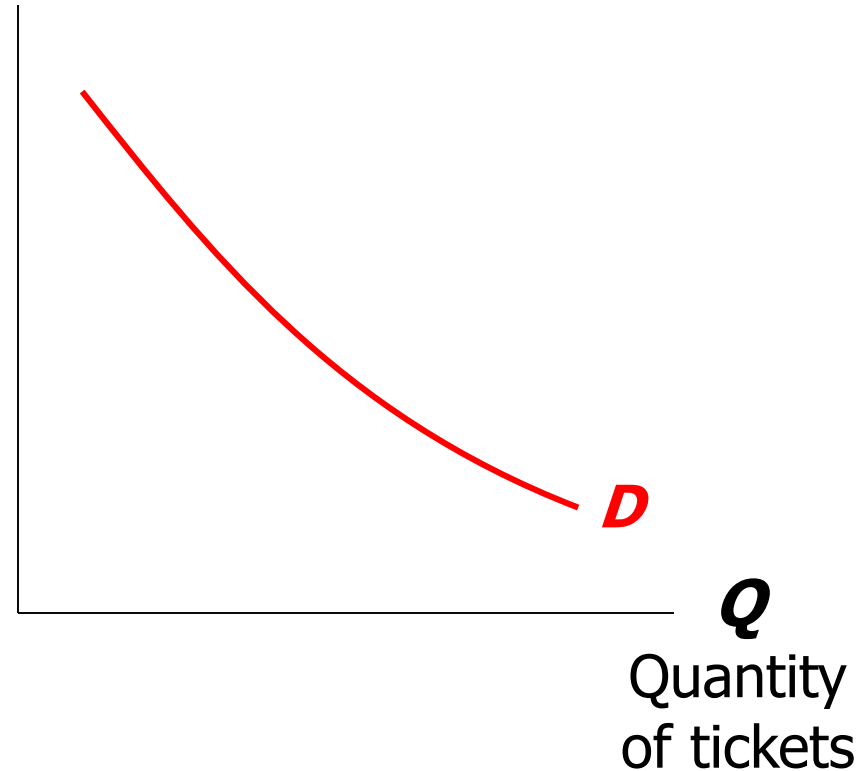
- show relationships between variables
- explain the economy's behavior
- devise policies to improve economic performance

The market for UW men's BB tickets: Demand

demand equation:

$$Q^d = D(P, W)$$

P
Price
of tickets



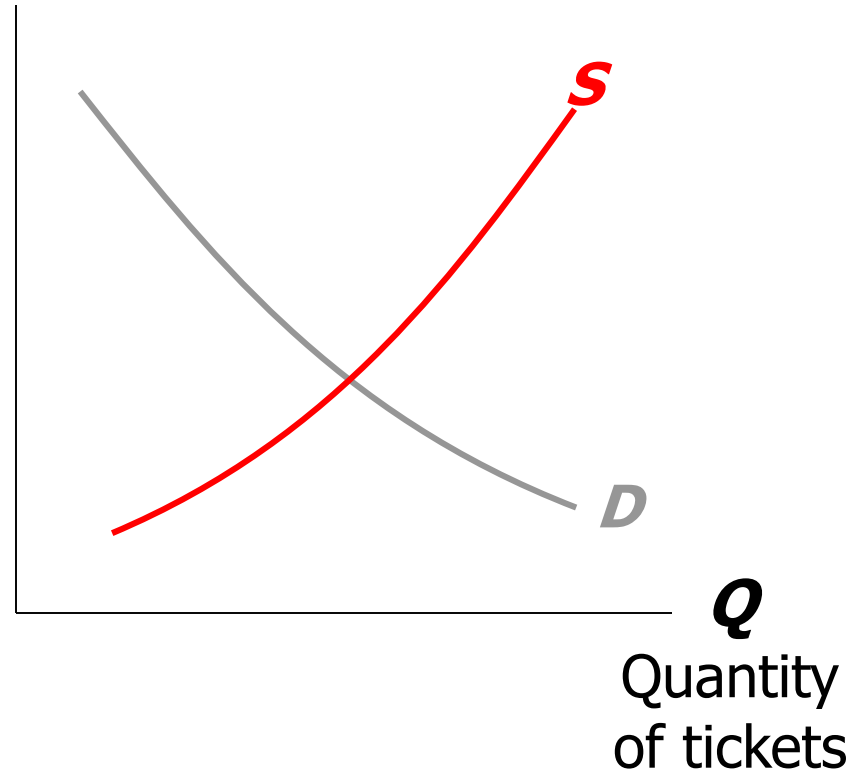
The **demand curve** shows the relationship between quantity demanded and price, other things equal.

The market for UW men's BB tickets: **Supply**

supply equation:

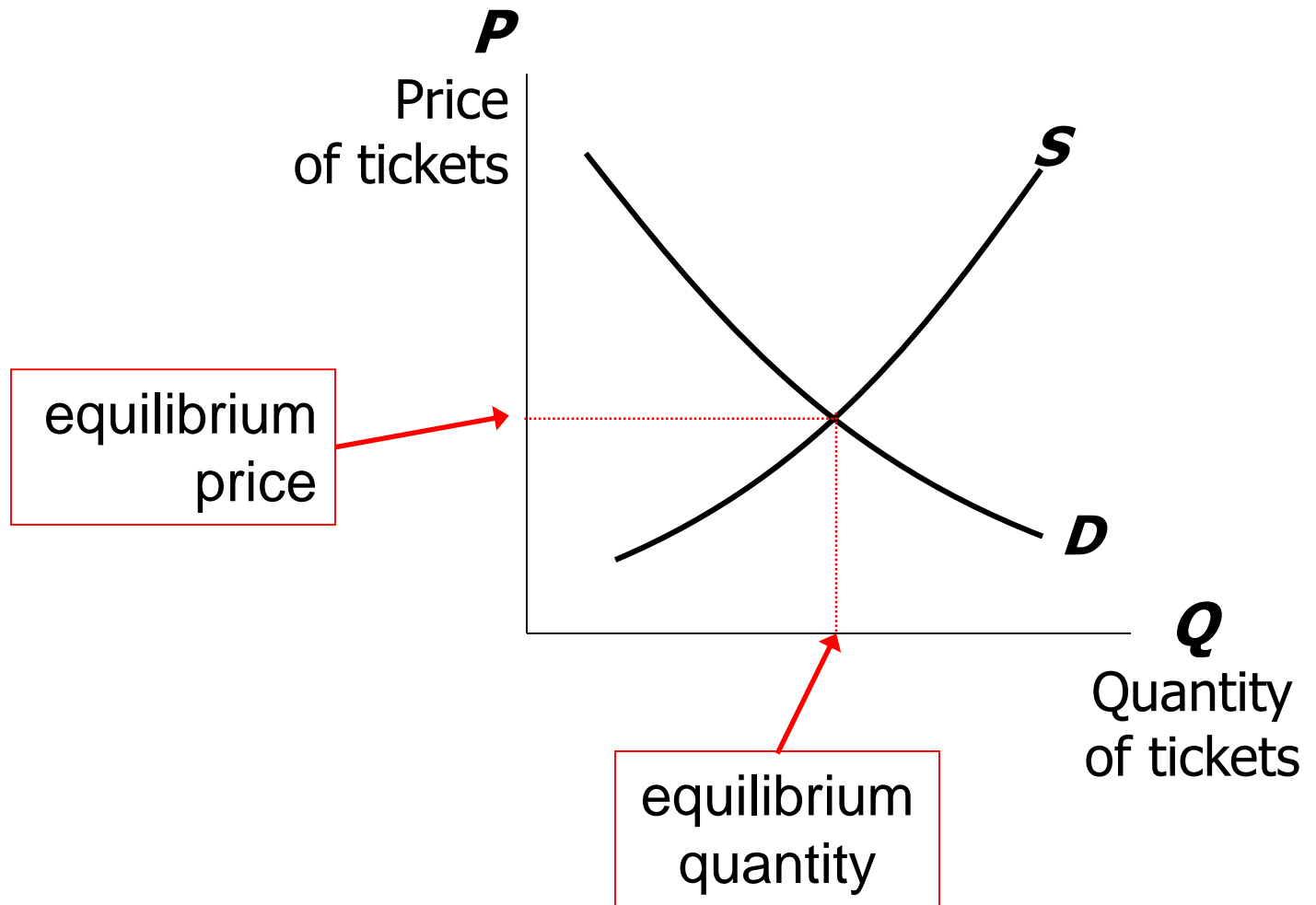
$$Q^s = S(P, P_H)$$

P
Price
of tickets



The **supply curve** shows the relationship between quantity supplied and price, other things equal.

The market for tickets: **Equilibrium**



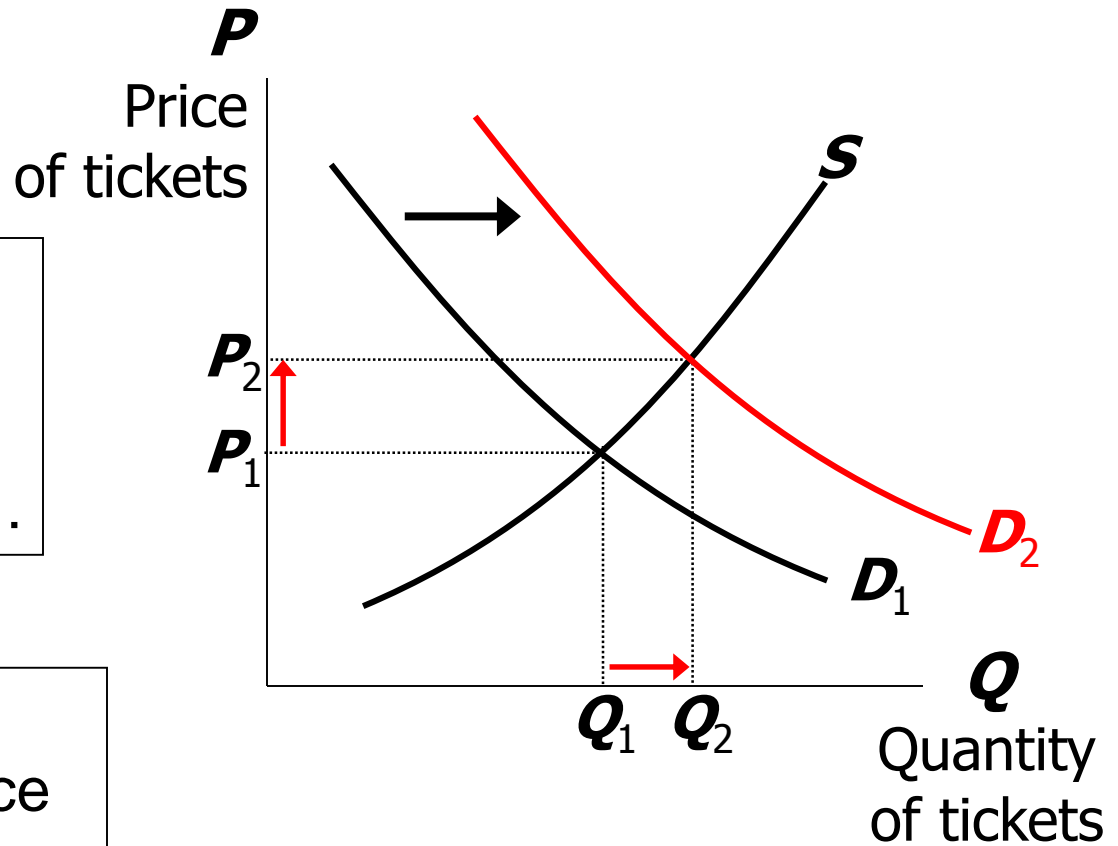
The effects of an increase in wins

demand equation:

$$Q^d = D(P, W)$$

An increase in wins increases the quantity of tickets consumers demand at each price...

...which increases the equilibrium price and quantity.



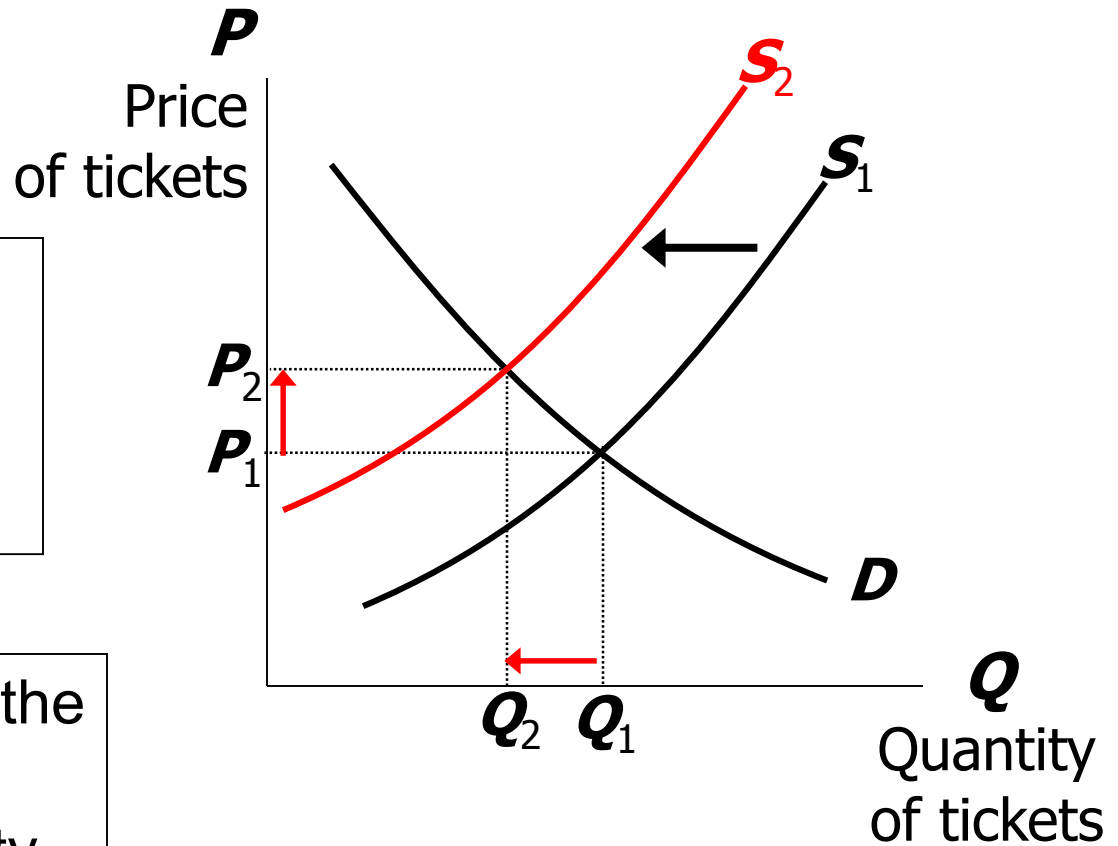
The effects of heating price increase

supply equation:

$$Q^s = S(P, P_H)$$

An increase in P_H reduces the quantity of tickets UW supplies at each price...

...which increases the market price and reduces the quantity.



Endogenous vs. exogenous variables

- The values of **endogenous** variables are determined in the model.
- The values of **exogenous** variables are determined outside the model: the model takes their values and behavior as given.
- In the model of supply & demand for tickets,
endogenous: P, Q^d, Q^s
exogenous: W, P_H