

The **Only Text** to Provide Substantive
Content on the Economic Crisis

ECONOMIC CRISIS UPDATE

Macro economics

Charles I. Jones

What instructors using Macroeconomics are saying:

“[*Macroeconomics* is] a wonderful modern treatment of macroeconomics. Its discussion of growth is by far the best around, with its theory-based yet data-intensive approach. The short-run sections are also updated and refreshingly to the point, allowing great connections with U.S. business-cycle history. Since students also seem to like it better than the other books — and I have tried the main competitors — I am all set!”

—PER KRUSELL, *Princeton University*

“Great textbook.”

—STEVE DAVIS, *University of Chicago Booth School of Business*

“It tells a streamlined story and fits all the major pieces into a coherent whole. . . . Prior to switching to Jones, the consistent feedback from students is that they found the Solow Model to be the most difficult to grasp. I am pleased to say that it is no longer the case since I adopted Jones. . . . ISMP analysis is excellent. (I am not looking back.)”

—VIC VARCARCEL, *Texas Tech*

“I think that the main structure and approach of the Jones book is outstanding. The move to ISMP was not too bold. Frankly, I had been waiting for years for somebody to do this at the intermediate level. . . . The length of the book is an advantage in my opinion. It allows me to introduce other readings, but the coverage provides a solid foundation from which to build.”

—MARK SIEGLER, *Cal State Sacramento*

“The treatment of growth is excellent. I also like the emphasis on interest-rate rules in the short-run material. A great strength of the presented short-run model is the explicit recognition of expectations formation in price setting (AS curve). This greatly assists talk about dynamics and implications of credibility of policy.”

—BRUCE PRESTON, *Columbia Business School, Columbia University*

“Strengths — the clear presentation of all topics; the logical flow of the material; the emphasis on the long run; the IS-MP model rather than IS-LM; and the excellent presentation of long-run fiscal policy issues.”

—WILLIAM HAWKINS, *University of Rochester*

“The ISMP model — elimination of the LM curve made it easy to explain to students. Romer Model — excellent exposition; nice empirical exercises. Overall, my students like it — the book is quite well written.”

—SERGEY MITYAKOV, *Clemson University*

“Personally, I love the growth chapters. As for the short-run chapters, I like setting up the simple ISMP diagram first, and then adding nuance. The text provides simplicity without sacrificing content in dealing with cycles; real appreciation of the importance of trend growth.”

—DIETRICH VOLLRATH, *University of Houston*

Substantive content on the economic crisis

Macroeconomics: Economic Crisis Update contains two brand-new chapters that directly address the crisis and present it in terms of the short-run models used in macroeconomics.

Chapter 13 — The Global Financial Crisis: Overview

13.1 — Introduction

13.2 — Recent Shocks to the Macroeconomy

- Housing Prices
- The Global Saving Glut
- Subprime Lending and the Rise of Interest Rates
- The Financial Turmoil of 2007–20??
- Oil Prices

13.3 — Macroeconomic Outcomes

- A Comparison to Previous Recessions
- Inflation
- The Rest of the World

13.4 — Some Fundamentals of Financial Economics

- Balance Sheets
- Leverage
- Bank Runs and Liquidity Crises
- Financial Wrap-Up

Chapter 14

The Global Financial Crisis and the Short-Run Model

The key innovation in Chapter 14 is the addition of a “risk premium” to the IS/MP and Aggregate Supply/Aggregate Demand models that explains the devastating separation that has occurred between the interest rate set by the Fed and the interest rates actually available for business and consumers.

14.1 — Introduction

14.2 — Financial Considerations in the Short-Run Model

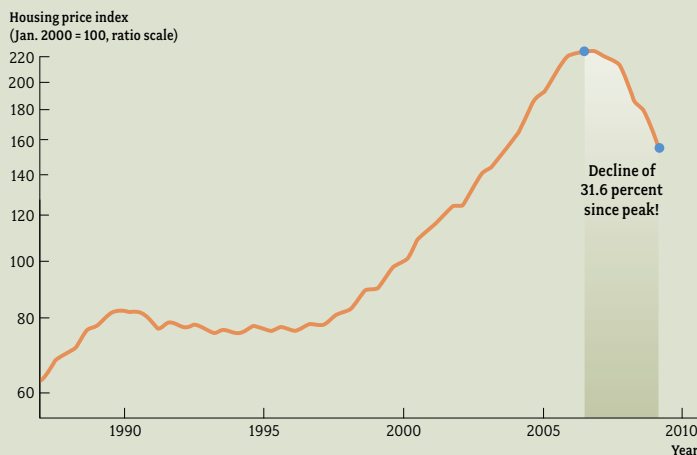
- A Risk Premium
- A Rising Risk Premium in the IS/MP Framework
- The Risk Premium in the AS/AD Framework
- The Dangers of Deflation

14.3 — Policy Responses to the Financial Crisis

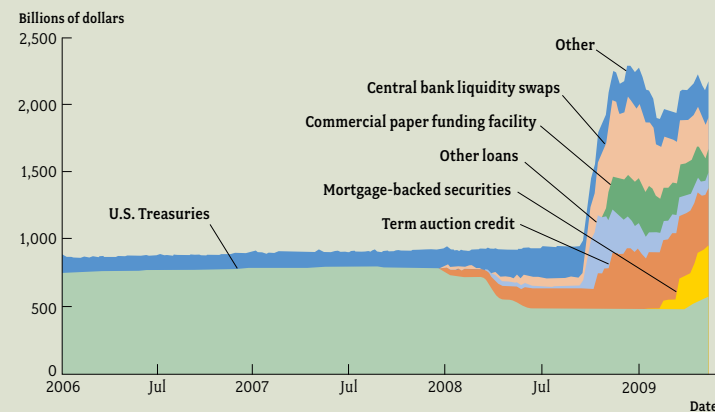
- The Taylor Rule and Monetary Policy
- The Money Supply
- The Fed’s Balance Sheet
- Repairing the Financial System
- Fiscal Stimulus

14.4 — Conclusion

▼ A Bursting Bubble in U.S. Housing Prices



▼ Financial Assets of the Federal Reserve

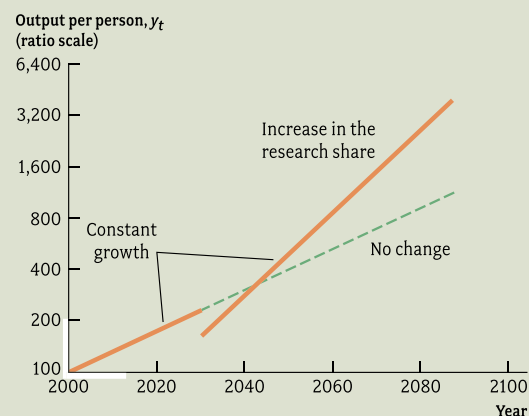


Highlights

Accessible and student friendly. Jones writes clearly and simply, with an engaging conversational style that puts students at ease. When introducing math, he presents it in a careful, patient manner.

Modern treatment of growth theory. *Macroeconomics: Economic Crisis Update* is the only undergraduate textbook to present substantial coverage of the Romer model. Jones draws on his experience as a teacher and textbook author to convey modern growth theory in a way that is accessible to undergraduates.

▼ Output per person after an increase in \bar{l}



Unique worked exercises reflect a focus on problem-solving.

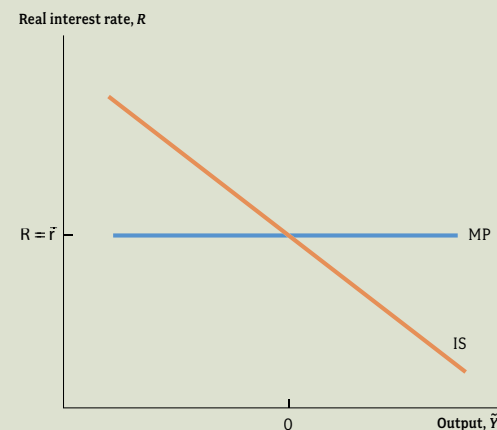
Each chapter of *Macroeconomics: Economic Crisis Update* includes two complete worked exercises that walk students step-by-step through the process. These worked exercises prepare students for the extensive end-of-chapter problems.

SmartWork online homework extends the problem-solving approach. Easy-to-use and customizable, SmartWork combines a robust homework-management system with extensive answer feedback that coaches students through solving problems.

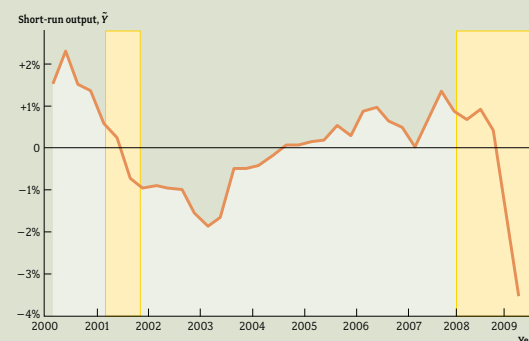
Modern treatment of economic fluctuations and applications.

Short-run chapters emphasize central banks that set interest rates in forming monetary policy. A simple open economy model is considered from the start, and globalization (international trade and international finance) is a key theme of the applications chapters.

▼ The MP Curve in the IS-MP Diagram



Two new chapters on the economic crisis. The first of the two chapters goes over the basic facts of the crisis itself and what led to it. The second chapter then analyzes the crisis by utilizing the two short run models used in the text — ISMP and AS/AD.



U.S. Short-Run Output

SAMPLE WORKED EXERCISE

2. The Great Depression:

(a) When the Fed tightened monetary policy in 1928–29, it raised interest rates. In Figure 14.11, this is shown in the movement of the economy from point *A* to point *B*, which caused a small slowdown in economic activity by reducing investment.

(b) The stock market bubble then popped, which created tremendous uncertainty in the economy, further reducing consumption and investment. This is modeled as a negative aggregate demand shock (a lower \bar{a}_c and \bar{a}_i), which shifts the IS curve down and to the left, depressing economic activity further as the economy moves from *B* to *C*.

(c) The Phillips curve is shown in Figure 14.12. The recession in the economy caused the inflation rate to decline. Because the inflation rate was already approximately zero, the decline through the Phillips curve led to *deflation*—a negative inflation rate.

(d) If the Fed had left the nominal interest rate unchanged, then the deflation would have caused the real interest rate to rise even further. To see this, recall

Figure 14.11
The Great Depression in the IS/MP Framework

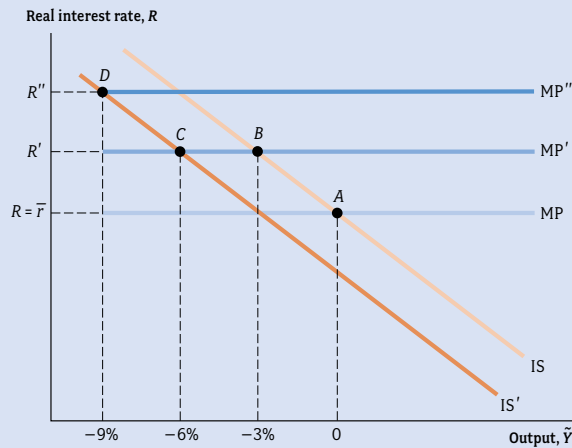
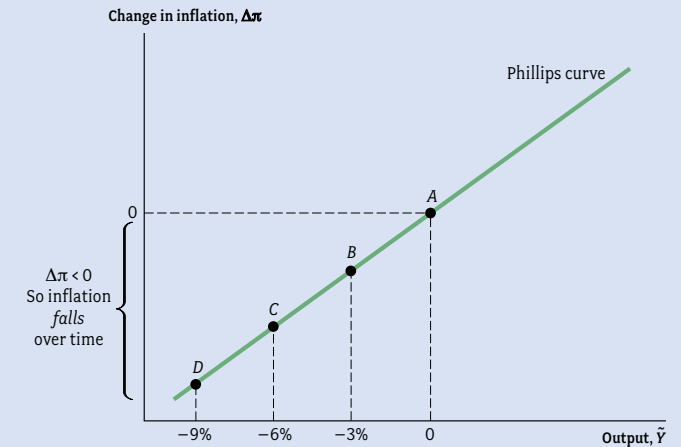


Figure 14.12
The Phillips Curve and the Great Depression



the Fisher equation, $i_t = R_t + \pi_t$, which can be rearranged to yield $R_t = i_t - \pi_t$. If i_t does not change, then a decline in π_t will cause the real interest rate to increase. This is shown in the original IS/MP diagram in Figure 14.11 by another shift up in the MP schedule. The economy moves from *C* to *D*, causing yet another decline in short-run output. The combination of these three factors caused a large shortfall in output—that is, the Great Depression.

(e) This exercise reveals how a sequence of events can conspire to reduce GDP below potential by a significant amount (the exact numbers in this exercise—the -3 percent, -6 percent, and -9 percent—are just examples). Moreover, we see the vicious circle between deflation and depression that can continue to push the economy further below potential unless some other change breaks this dynamic. In the actual Great Depression, the Fed devalued the dollar by breaking from the gold standard, which is essentially an “unconventional policy” that allowed the Fed to increase the money supply substantially and create some inflation, ending the deflationary spiral.

SmartWork



Online Homework and Tutorial Program with an Integrated Ebook

Developed by university educators, SmartWork is the most intuitive online tutorial and homework-management system available for the intermediate macroeconomics course.

Powerful quizzing engines support a wide range of questions, including multiple-choice and those using interactive graphs and macroeconomics equations. Answer-specific feedback, tutorial questions, and “hints” coach students through the problem-solving process, while links to the integrated ebook encourage active reading and provide easy reference to the concepts discussed in the text.

Assigning, editing, and administering homework is easy with SmartWork’s intuitive authoring tools that allow instructors to modify existing problems or create their own.

Highlights include:

- ▶ **An intuitive and easy-to-use interface.**
- ▶ **Extensive hinting and answer-specific feedback**, including multistep guided tutorial problems.
- ▶ **A wide range of question types**, including interactive graphs, multiple-choice, and economics equations.
- ▶ **Intuitive authoring tools** provide instructors an easy-to-use environment for editing existing problems or creating their own.
- ▶ **An easy-to-use math palette** for composing graphs and mathematical expressions.
- ▶ **Algorithmically generated variables**, so each student sees a slightly different version of the same problem.
- ▶ **An at-a-glance gradebook** that offers a visual summary of students’ work.
- ▶ **A full complement of tools** for managing assignments and grades.
- ▶ **A fully integrated ebook.** SmartWork may be purchased alone or with an integrated ebook. Links to the ebook make it easy for students to consult the text while working through problems.

Contents

Macroeconomics: Economic Crisis Update is arranged in three key sections: the long run, the short run, and applications. The long-run section includes a modern presentation of economic growth. The short-run section emphasizes central banks that set interest rates and develops an intuitive Aggregate Supply/Aggregate Demand framework with inflation rather than the price level on the vertical axis. Two new chapters — 13 and 14 — address the Economic Crisis. The applications section explores key policy topics such as the continuing rapid rise in health expenditures and globalization.

Part 1 — Preliminaries

- 1 Introduction to Macroeconomics
- 2 Measuring the Macroeconomy

Part 2 — The Long Run

- 3 An Overview of Long-Run Economic Growth
- 4 A Model of Production
- 5 The Solow Growth Model
- 6 Growth and Ideas – **Completely unique chapter**
- 7 The Labor Market, Wages, and Unemployment
- 8 Inflation

Part 3 — The Short Run

- 9 An Introduction to the Short Run
- 10 The IS Curve
- 11 Monetary Policy and the Phillips Curve
- 12 Stabilization Policy and the AS/AD Framework
- 13 **The Global Financial Crisis: Overview**
- 14 **The Global Financial Crisis and the Short-Run Model**



Part 4 — Applications

- 15 The Government and the Macroeconomy
- 16 International Trade
- 17 Exchange Rates and International Finance
- 18 Parting Thoughts

Comprehensive emedia resources for students and instructors

The media package for *Macroeconomics: Economic Crisis Update* provides students with the perfect balance of problem-solving practice, conceptual help, and content review and instructors with the most comprehensive set of media tools on the market.

For Students



This free and open website provides everything students need to study and review. Features include:

ORGANIZE

This section includes a progress report, chapter outlines, and links to premium content in the ebook.

LEARN

Multiple-choice and true/false quizzes cover key concepts, data, and facts from each chapter and offer diagnostic feedback.

CONNECT

Data-plotting exercises use real data to help students understand trends and concepts related to data models. Interactive tutorials help students with the most challenging concepts in the course. And an Economics in the News RSS feed keeps them up-to-date on the latest economics news.

Student Study Guide

DAVID GILLETTE, *Truman State University*

This comprehensive learning manual includes the following for each chapter.

- Overview of the chapter
- Full definitions of the key concepts
- True/false review questions, with solutions
- Multiple-choice review questions, with solutions and explanations
- Exercises, with complete solutions
- Worked exercises
- Problems, with complete solutions
- Worked problems

The solutions to the exercises and problems provide unparalleled support for the student trying to master the material in the course.

For Instructors

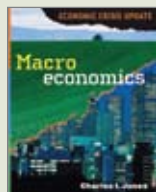
Test Bank (ROBERT SONORA, *Fort Lewis College*) Available on CD-ROM or for download in rich-text, Blackboard Learning System, and ExamView® Assessment Suite formats, the test bank includes over 1,400 questions.

Lecture PowerPoints include all graphs, tables, and drawn art from the text.

Instructor's Manual (GARETT JONES, *George Mason University*)

This valuable instructor's resource includes "excursions" that expand on case studies in the text, additional case studies not in the text, as well as articles and data that can be used as handouts in class.

Ordering Information



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Economic Crisis Update**
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“My students liked the Jones book. They found it well written and easy to understand. In particular, I liked its analytical structure and also found it well written. . . I have recommended it to my colleagues.”

—PETER MONTIEL, Brown University

