Macro Economics

The Only Text to Provide Substantive Content on the Economic Crisis

ECONOMIC CRISIS UPDATE

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

“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

“Great textbook.”
—STEVE DAVIS, University of Chicago Booth School of Business

“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

“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. . . . IS-MP analysis is excellent. (I am not looking back.)”
—VIC VARCARCEL, Texas Tech

“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

“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

“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

“Great textbook.”
—STEVE DAVIS, University of Chicago Booth School of Business
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

Financial Assets of the Federal Reserve

A Bursting Bubble in U.S. Housing Prices
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 $I$

![Graph showing output per person after an increase in investment](image)

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

![Graph showing the MP Curve in the IS-MP Diagram](image)

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.
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 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 $\pi_t$ 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.
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

**StudySpace**

wwnorton.com/studyspace

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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CHARLES I. JONES, Stanford University
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Study Guide
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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