

contents

Preface xxiii

Supplements and Media xxxii

part I Introduction 1

Chapter 1 The Science of Macroeconomics 3

- 1-1 What Macroeconomists Study 3
 - **CASE STUDY** *The Historical Performance of the U.S. Economy* 4
- 1-2 How Economists Think 7
 - Theory as Model Building 7
 - **FYI** *Using Functions to Express Relationships Among Variables* 11
 - The Use of Multiple Models 12
 - Prices: Flexible Versus Sticky 12
 - Microeconomic Thinking and Macroeconomic Models 13
 - **FYI** *Nobel Macroeconomists* 14
- 1-3 How This Book Proceeds 15

Chapter 2 The Data of Macroeconomics 17

- 2-1 Measuring the Value of Economic Activity: Gross Domestic Product 18
 - Income, Expenditure, and the Circular Flow 18
 - **FYI** *Stocks and Flows* 20
 - Rules for Computing GDP 20
 - Real GDP Versus Nominal GDP 23
 - The GDP Deflator 25
 - Chain-Weighted Measures of Real GDP 25
 - **FYI** *Two Arithmetic Tricks for Working With Percentage Changes* 26
 - The Components of Expenditure 27
 - **FYI** *What Is Investment?* 28
 - **CASE STUDY** *GDP and Its Components* 28
 - Other Measures of Income 29
 - Seasonal Adjustment 31
- 2-2 Measuring the Cost of Living: The Consumer Price Index 32
 - The Price of a Basket of Goods 32
 - The CPI Versus the GDP Deflator 33
 - **CASE STUDY** *Does the CPI Overstate Inflation?* 35
- 2-3 Measuring Joblessness: The Unemployment Rate 36
 - The Household Survey 36

- ▶ **CASE STUDY** *Trends in Labor-Force Participation* 38
- The Establishment Survey 39
- 2-4 **Conclusion: From Economic Statistics to Economic Models** 40

part II Classical Theory: The Economy in the Long Run 43

Chapter 3 National Income: Where It Comes From and Where It Goes 45

- 3-1 **What Determines the Total Production of Goods and Services?** 47
 - The Factors of Production 47
 - The Production Function 48
 - The Supply of Goods and Services 48
- 3-2 **How Is National Income Distributed to the Factors of Production?** 49
 - Factor Prices 49
 - The Decisions Facing the Competitive Firm 50
 - The Firm's Demand for Factors 51
 - The Division of National Income 54
 - ▶ **CASE STUDY** *The Black Death and Factor Prices* 56
 - The Cobb–Douglas Production Function 56
 - ▶ **CASE STUDY** *Labor Productivity as the Key Determinant of Real Wages* 59
- 3-3 **What Determines the Demand for Goods and Services?** 60
 - Consumption 61
 - Investment 62
 - ▶ **FYI** *The Many Different Interest Rates* 64
 - Government Purchases 64
- 3-4 **What Brings the Supply and Demand for Goods and Services Into Equilibrium?** 65
 - Equilibrium in the Market for Goods and Services: The Supply and Demand for the Economy's Output 66
 - Equilibrium in the Financial Markets: The Supply and Demand for Loanable Funds 67
 - Changes in Saving: The Effects of Fiscal Policy 68
 - ▶ **FYI** *The Financial System: Markets, Intermediaries, and the Crisis of 2008–2009* 69
 - ▶ **CASE STUDY** *Wars and Interest Rates in the United Kingdom, 1730–1920* 70
 - Changes in Investment Demand 72
- 3-5 **Conclusion** 74

Chapter 4 Money and Inflation 79

4-1 What Is Money? 80

The Functions of Money 80

The Types of Money 81

► **CASE STUDY** *Money in a POW Camp* 82

The Development of Fiat Money 82

► **CASE STUDY** *Money and Social Conventions on the Island of Yap* 83

How the Quantity of Money Is Controlled 83

How the Quantity of Money Is Measured 84

► **FYI** *How Do Credit Cards and Debit Cards Fit Into the Monetary System?* 85

4-2 The Quantity Theory of Money 86

Transactions and the Quantity Equation 87

From Transactions to Income 87

The Money Demand Function and the Quantity Equation 88

The Assumption of Constant Velocity 89

Money, Prices, and Inflation 89

► **CASE STUDY** *Inflation and Money Growth* 90

4-3 Seigniorage: The Revenue From Printing Money 92

► **CASE STUDY** *Paying for the American Revolution* 93

4-4 Inflation and Interest Rates 94

Two Interest Rates: Real and Nominal 94

The Fisher Effect 94

► **CASE STUDY** *Inflation and Nominal Interest Rates* 95

Two Real Interest Rates: *Ex Ante* and *Ex Post* 96

► **CASE STUDY** *Nominal Interest Rates in the Nineteenth Century* 97

4-5 The Nominal Interest Rate and the Demand for Money 98

The Cost of Holding Money 98

Future Money and Current Prices 98

4-6 The Social Costs of Inflation 100

The Layman's View and the Classical Response 100

► **CASE STUDY** *What Economists and the Public Say About Inflation* 101

The Costs of Expected Inflation 102

The Costs of Unexpected Inflation 103

► **CASE STUDY** *The Free Silver Movement, the Election of 1896, and the Wizard of Oz* 104

One Benefit of Inflation 105

4-7 Hyperinflation 106

The Costs of Hyperinflation 106

► **CASE STUDY** *Life During the Bolivian Hyperinflation* 107

The Causes of Hyperinflation 108

► **CASE STUDY** *Hyperinflation in Interwar Germany* 109

► **CASE STUDY** *Hyperinflation in Zimbabwe* 111

- 4-8 **Conclusion: The Classical Dichotomy** 112
 Appendix: The Cagan Model: How Current and Future Money Affect the Price Level 116

Chapter 5 The Open Economy 119

- 5-1 **The International Flows of Capital and Goods** 120
 The Role of Net Exports 120
 International Capital Flows and the Trade Balance 122
 International Flows of Goods and Capital: An Example 124
 ► **FYI** *The Irrelevance of Bilateral Trade Balances* 124
- 5-2 **Saving and Investment in a Small Open Economy** 125
 Capital Mobility and the World Interest Rate 125
 Why Assume a Small Open Economy? 126
 The Model 127
 How Policies Influence the Trade Balance 128
 Evaluating Economic Policy 131
 ► **CASE STUDY** *The U.S. Trade Deficit* 131
 ► **CASE STUDY** *Why Doesn't Capital Flow to Poor Countries?* 134
- 5-3 **Exchange Rates** 135
 Nominal and Real Exchange Rates 135
 The Real Exchange Rate and the Trade Balance 137
 The Determinants of the Real Exchange Rate 138
 How Policies Influence the Real Exchange Rate 139
 The Effects of Trade Policies 141
 The Determinants of the Nominal Exchange Rate 143
 ► **CASE STUDY** *Inflation and the Nominal Exchange Rate* 144
 The Special Case of Purchasing-Power Parity 145
 ► **CASE STUDY** *The Big Mac Around the World* 147
- 5-4 **Conclusion: The United States as a Large Open Economy** 149
 Appendix: The Large Open Economy 153
 Net Capital Outflow 153
 The Model 155
 Policies in the Large Open Economy 157
 Conclusion 161

Chapter 6 Unemployment 163

- 6-1 **Job Loss, Job Finding, and the Natural Rate of Unemployment** 164
- 6-2 **Job Search and Frictional Unemployment** 166
 Causes of Frictional Unemployment 167
 Public Policy and Frictional Unemployment 167
 ► **CASE STUDY** *Unemployment Insurance and the Rate of Job Finding* 168
- 6-3 **Real-Wage Rigidity and Structural Unemployment** 169
 Minimum-Wage Laws 170

► CASE STUDY	<i>The Characteristics of Minimum-Wage Workers</i>	171
	Unions and Collective Bargaining	172
	Efficiency Wages	174
► CASE STUDY	<i>Henry Ford's \$5 Workday</i>	175
6-4	Labor-Market Experience: The United States	176
	The Duration of Unemployment	176
	Variation in the Unemployment Rate Across Demographic Groups	177
	Trends in Unemployment	178
	Transitions Into and Out of the Labor Force	179
6-5	Labor-Market Experience: Europe	180
	The Rise in European Unemployment	180
	Unemployment Variation Within Europe	182
► CASE STUDY	<i>The Secrets to Happiness</i>	183
	The Rise of European Leisure	184
6-6	Conclusion	186

part III Growth Theory: The Economy in the Very Long Run 189

Chapter 7 Economic Growth I: Capital Accumulation and Population Growth 191

7-1	The Accumulation of Capital	192
	The Supply and Demand for Goods	192
	Growth in the Capital Stock and the Steady State	195
	Approaching the Steady State: A Numerical Example	197
► CASE STUDY	<i>The Miracle of Japanese and German Growth</i>	200
	How Saving Affects Growth	200
► CASE STUDY	<i>Saving and Investment Around the World</i>	202
7-2	The Golden Rule Level of Capital	203
	Comparing Steady States	204
	Finding the Golden Rule Steady State: A Numerical Example	207
	The Transition to the Golden Rule Steady State	208
7-3	Population Growth	211
	The Steady State With Population Growth	211
	The Effects of Population Growth	213
► CASE STUDY	<i>Population Growth Around the World</i>	214
	Alternative Perspectives on Population Growth	216
7-4	Conclusion	218

Chapter 8 Economic Growth II: Technology, Empirics, and Policy 221

- 8-1 Technological Progress in the Solow Model 222
 - The Efficiency of Labor 222
 - The Steady State With Technological Progress 223
 - The Effects of Technological Progress 224
- 8-2 From Growth Theory to Growth Empirics 225
 - Balanced Growth 225
 - Convergence 226
 - Factor Accumulation Versus Production Efficiency 227
 - **CASE STUDY** *Is Free Trade Good for Economic Growth?* 228
- 8-3 Policies to Promote Growth 229
 - Evaluating the Rate of Saving 230
 - Changing the Rate of Saving 231
 - Allocating the Economy's Investment 232
 - Establishing the Right Institutions 234
 - **CASE STUDY** *The Colonial Origins of Modern Institutions* 234
 - Encouraging Technological Progress 235
 - **CASE STUDY** *The Worldwide Slowdown in Economic Growth: 1972–1995* 236
- 8-4 Beyond the Solow Model: Endogenous Growth Theory 238
 - The Basic Model 239
 - A Two-Sector Model 240
 - The Microeconomics of Research and Development 241
 - The Process of Creative Destruction 242
- 8-5 Conclusion 244
 - Appendix: Accounting for the Sources of Economic Growth 247
 - Increases in the Factors of Production 247
 - Technological Progress 249
 - The Sources of Growth in the United States 251
 - **CASE STUDY** *Growth in the East Asian Tigers* 251
 - The Solow Residual in the Short Run 252

part IV Business Cycle Theory: The Economy in the Short Run 255

Chapter 9 Introduction to Economic Fluctuations 257

- 9-1 The Facts About the Business Cycle 258
 - GDP and Its Components 258
 - Unemployment and Okun's Law 260
 - Leading Economic Indicators 263

- 9-2 Time Horizons in Macroeconomics 265**
 How the Short Run and Long Run Differ 265
 ► **CASE STUDY** *If You Want to Know Why Firms Have Sticky Prices, Ask Them* 266
 The Model of Aggregate Supply and Aggregate Demand 268
- 9-3 Aggregate Demand 269**
 The Quantity Equation as Aggregate Demand 269
 Why the Aggregate Demand Curve Slopes Downward 270
 Shifts in the Aggregate Demand Curve 270
- 9-4 Aggregate Supply 271**
 The Long Run: The Vertical Aggregate Supply Curve 272
 The Short Run: The Horizontal Aggregate Supply Curve 273
 From the Short Run to the Long Run 275
 ► **CASE STUDY** *A Monetary Lesson From French History* 276
 ► **FYI** *David Hume on the Real Effects of Money* 278
- 9-5 Stabilization Policy 278**
 Shocks to Aggregate Demand 279
 Shocks to Aggregate Supply 280
 ► **CASE STUDY** *How OPEC Helped Cause Stagflation in the 1970s and Euphoria in the 1980s* 282
- 9-6 Conclusion 283**

Chapter 10 Aggregate Demand I: Building the IS–LM Model 287

- 10-1 The Goods Market and the IS Curve 289**
 The Keynesian Cross 289
 ► **CASE STUDY** *Cutting Taxes to Stimulate the Economy: The Kennedy and Bush Tax Cuts* 296
 ► **CASE STUDY** *Increasing Government Purchases to Stimulate the Economy: The Obama Spending Plan* 297
 The Interest Rate, Investment, and the IS Curve 298
 How Fiscal Policy Shifts the IS Curve 299
- 10-2 The Money Market and the LM Curve 301**
 The Theory of Liquidity Preference 301
 ► **CASE STUDY** *Does a Monetary Tightening Raise or Lower Interest Rates?* 303
 Income, Money Demand, and the LM Curve 304
 How Monetary Policy Shifts the LM Curve 305
- 10-3 Conclusion: The Short-Run Equilibrium 306**

Chapter 11 Aggregate Demand II: Applying the IS–LM Model 311

- 11-1 Explaining Fluctuations With the IS–LM Model 312**
 How Fiscal Policy Shifts the IS Curve and Changes the Short-Run Equilibrium 312
 How Monetary Policy Shifts the LM Curve and Changes the Short-Run Equilibrium 313

The Interaction Between Monetary and Fiscal Policy	315
► CASE STUDY <i>Policy Analysis with Macroeconometric Models</i>	317
Shocks in the <i>IS–LM</i> Model	318
► CASE STUDY <i>The U.S. Recession of 2001</i>	319
What Is the Fed’s Policy Instrument—The Money Supply or the Interest Rate?	320
11-2 <i>IS–LM</i> as a Theory of Aggregate Demand	321
From the <i>IS–LM</i> Model to the Aggregate Demand Curve	321
The <i>IS–LM</i> Model in the Short Run and Long Run	324
11-3 The Great Depression	326
The Spending Hypothesis: Shocks to the <i>IS</i> Curve	327
The Money Hypothesis: A Shock to the <i>LM</i> Curve	328
The Money Hypothesis Again: The Effects of Falling Prices	329
Could the Depression Happen Again?	331
► CASE STUDY <i>The Financial Crisis and Economic Downturn of 2008 and 2009</i>	332
► FYI <i>The Liquidity Trap</i>	334
11-4 Conclusion	335
Chapter 12 The Open Economy Revisited: The Mundell–Fleming Model and the Exchange-Rate Regime	339
12-1 The Mundell–Fleming Model	340
The Key Assumption: Small Open Economy With Perfect Capital Mobility	341
The Goods Market and the <i>IS*</i> Curve	341
The Money Market and the <i>LM*</i> Curve	343
Putting the Pieces Together	343
12-2 The Small Open Economy Under Floating Exchange Rates	345
Fiscal Policy	345
Monetary Policy	347
Trade Policy	348
12-3 The Small Open Economy Under Fixed Exchange Rates	349
How a Fixed-Exchange-Rate System Works	350
► CASE STUDY <i>The International Gold Standard</i>	351
Fiscal Policy	352
Monetary Policy	352
► CASE STUDY <i>Devaluation and the Recovery From the Great Depression</i>	354
Trade Policy	354
Policy in the Mundell–Fleming Model: A Summary	355
12-4 Interest Rate Differentials	356
Country Risk and Exchange-Rate Expectations	356
Differentials in the Mundell–Fleming Model	357
► CASE STUDY <i>International Financial Crisis: Mexico 1994–1995</i>	358
► CASE STUDY <i>International Financial Crisis: Asia 1997–1998</i>	360

- 12-5 Should Exchange Rates Be Floating or Fixed? 361
 Pros and Cons of Different Exchange-Rate Systems 361
 ► **CASE STUDY** *Monetary Union in the United States and Europe* 362
 Speculative Attacks, Currency Boards, and Dollarization 363
 The Impossible Trinity 364
 ► **CASE STUDY** *The Chinese Currency Controversy* 365
- 12-6 From the Short Run to the Long Run: The Mundell–Fleming Model
 With a Changing Price Level 366
- 12-7 A Concluding Reminder 369
 Appendix: A Short-Run Model of the Large Open Economy 373
 Fiscal Policy 375
 Monetary Policy 376
 A Rule of Thumb 377

Chapter 13 Aggregate Supply and the Short-Run Tradeoff Between Inflation and Unemployment 379

- 13-1 The Basic Theory of Aggregate Supply 380
 The Sticky-Price Model 381
 An Alternative Theory: The Imperfect-Information Model 383
 ► **CASE STUDY** *International Differences in the Aggregate Supply Curve* 385
 Implications 386
- 13-2 Inflation, Unemployment, and the Phillips Curve 388
 Deriving the Phillips Curve From the Aggregate Supply Curve 388
 ► **FYI** *The History of the Modern Phillips Curve* 390
 Adaptive Expectations and Inflation Inertia 390
 Two Causes of Rising and Falling Inflation 391
 ► **CASE STUDY** *Inflation and Unemployment in the United States* 391
 The Short-Run Tradeoff Between Inflation and Unemployment 393
 ► **FYI** *How Precise Are Estimates of the Natural Rate of Unemployment?* 395
 Disinflation and the Sacrifice Ratio 395
 Rational Expectations and the Possibility of Painless Disinflation 396
 ► **CASE STUDY** *The Sacrifice Ratio in Practice* 398
 Hysteresis and the Challenge to the Natural-Rate Hypothesis 399
- 13-3 Conclusion 401
 Appendix: The Mother of All Models 405

Chapter 14 A Dynamic Model of Aggregate Demand and Aggregate Supply 409

- 14-1 Elements of the Model 410
 Output: The Demand for Goods and Services 410
 The Real Interest Rate: The Fisher Equation 411
 Inflation: The Phillips Curve 412
 Expected Inflation: Adaptive Expectations 413

	The Nominal Interest Rate: The Monetary-Policy Rule	414
	► CASE STUDY <i>The Taylor Rule</i>	415
14-2	Solving the Model	417
	The Long-Run Equilibrium	418
	The Dynamic Aggregate Supply Curve	418
	The Dynamic Aggregate Demand Curve	420
	The Short-Run Equilibrium	422
14-3	Using the Model	423
	Long-Run Growth	423
	A Shock to Aggregate Supply	424
	► FYI <i>The Numerical Calibration and Simulation</i>	425
	A Shock to Aggregate Demand	427
	A Shift in Monetary Policy	429
14-4	Two Applications: Lessons for Monetary Policy	432
	The Tradeoff Between Output Variability and Inflation Variability	432
	► CASE STUDY <i>The Fed Versus the European Central Bank</i>	435
	The Taylor Principle	436
	► CASE STUDY <i>What Caused the Great Inflation?</i>	437
14-5	Conclusion: Toward DSGE Models	439

part V Macroeconomic Policy Debates 443

Chapter 15 Stabilization Policy 445

15-1	Should Policy Be Active or Passive?	446
	Lags in the Implementation and Effects of Policies	447
	The Difficult Job of Economic Forecasting	448
	► CASE STUDY <i>Mistakes in Forecasting</i>	449
	Ignorance, Expectations, and the Lucas Critique	450
	The Historical Record	451
	► CASE STUDY <i>Is the Stabilization of the Economy a Figment of the Data?</i>	452
15-2	Should Policy Be Conducted by Rule or by Discretion?	453
	Distrust of Policymakers and the Political Process	453
	The Time Inconsistency of Discretionary Policy	454
	► CASE STUDY <i>Alexander Hamilton Versus Time Inconsistency</i>	456
	Rules for Monetary Policy	457
	► CASE STUDY <i>Inflation Targeting: Rule or Constrained Discretion?</i>	458
	► CASE STUDY <i>Central-Bank Independence</i>	459
15-3	Conclusion: Making Policy in an Uncertain World	460
	Appendix: Time Inconsistency and the Tradeoff Between Inflation and Unemployment	463

Chapter 16 Government Debt and Budget Deficits 467

- 16-1 The Size of the Government Debt 468**
 - **CASE STUDY** *The Troubling Long-Term Outlook for Fiscal Policy* 470
- 16-2 Problems in Measurement 472**
 - Measurement Problem 1: Inflation 472
 - Measurement Problem 2: Capital Assets 473
 - Measurement Problem 3: Uncounted Liabilities 474
 - **CASE STUDY** *Accounting for TARP* 474
 - Measurement Problem 4: The Business Cycle 475
 - Summing Up 476
- 16-3 The Traditional View of Government Debt 476**
 - **FYI** *Taxes and Incentives* 478
- 16-4 The Ricardian View of Government Debt 479**
 - The Basic Logic of Ricardian Equivalence 479
 - Consumers and Future Taxes 480
 - **CASE STUDY** *George Bush's Withholding Experiment* 481
 - **CASE STUDY** *Why Do Parents Leave Bequests?* 483
 - Making a Choice 484
 - **FYI** *Ricardo on Ricardian Equivalence* 484
- 16-5 Other Perspectives on Government Debt 485**
 - Balanced Budgets Versus Optimal Fiscal Policy 485
 - Fiscal Effects on Monetary Policy 486
 - Debt and the Political Process 487
 - International Dimensions 488
 - **CASE STUDY** *The Benefits of Indexed Bonds* 489
- 16-6 Conclusion 490**

part VI More on the Microeconomics Behind Macroeconomics 493

Chapter 17 Consumption 495

- 17-1 John Maynard Keynes and the Consumption Function 496**
 - Keynes's Conjectures 496
 - The Early Empirical Successes 497
 - Secular Stagnation, Simon Kuznets, and the Consumption Puzzle 498
- 17-2 Irving Fisher and Intertemporal Choice 500**
 - The Intertemporal Budget Constraint 500
 - **FYI** *Present Value, or Why a \$1,000,000 Prize Is Worth Only \$623,000* 502
 - Consumer Preferences 503

Optimization	504
How Changes in Income Affect Consumption	505
How Changes in the Real Interest Rate Affect Consumption	506
Constraints on Borrowing	507
17-3 Franco Modigliani and the Life-Cycle Hypothesis	509
The Hypothesis	510
Implications	511
► CASE STUDY <i>The Consumption and Saving of the Elderly</i>	512
17-4 Milton Friedman and the Permanent-Income Hypothesis	514
The Hypothesis	514
Implications	515
► CASE STUDY <i>The 1964 Tax Cut and the 1968 Tax Surcharge</i>	516
17-5 Robert Hall and the Random-Walk Hypothesis	516
The Hypothesis	517
Implications	517
► CASE STUDY <i>Do Predictable Changes in Income Lead to Predictable Changes in Consumption?</i>	518
17-6 David Laibson and the Pull of Instant Gratification	519
► CASE STUDY <i>How to Get People to Save More</i>	520
17-7 Conclusion	521
Chapter 18 Investment	525
18-1 Business Fixed Investment	526
The Rental Price of Capital	527
The Cost of Capital	528
The Determinants of Investment	530
Taxes and Investment	532
The Stock Market and Tobin's q	533
► CASE STUDY <i>The Stock Market as an Economic Indicator</i>	534
Alternative Views of the Stock Market: The Efficient Markets Hypothesis Versus Keynes's Beauty Contest	536
Financing Constraints	537
Banking Crises and Credit Crunches	538
18-2 Residential Investment	539
The Stock Equilibrium and the Flow Supply	539
Changes in Housing Demand	540
18-3 Inventory Investment	543
Reasons for Holding Inventories	543
How the Real Interest Rate and Credit Conditions Affect Inventory Investment	543
18-4 Conclusion	544

Chapter 19 Money Supply, Money Demand, and the Banking System 547

19-1 Money Supply 547

- 100-Percent-Reserve Banking 548
- Fractional-Reserve Banking 549
- A Model of the Money Supply 550
- The Three Instruments of Monetary Policy 552
- **CASE STUDY** *Bank Failures and the Money Supply in the 1930s* 553
- Bank Capital, Leverage, and Capital Requirements 555

19-2 Money Demand 556

- Portfolio Theories of Money Demand 557
- **CASE STUDY** *Currency and the Underground Economy* 558
- Transactions Theories of Money Demand 558
- The Baumol-Tobin Model of Cash Management 559
- **CASE STUDY** *Empirical Studies of Money Demand* 562
- Financial Innovation, Near Money, and the Demise of the Monetary Aggregates 563

19-3 Conclusion 564

Epilogue What We Know, What We Don't 567

The Four Most Important Lessons of Macroeconomics 567

- Lesson 1: In the long run, a country's capacity to produce goods and services determines the standard of living of its citizens. 568
- Lesson 2: In the short run, aggregate demand influences the amount of goods and services that a country produces. 568
- Lesson 3: In the long run, the rate of money growth determines the rate of inflation, but it does not affect the rate of unemployment. 569
- Lesson 4: In the short run, policymakers who control monetary and fiscal policy face a tradeoff between inflation and unemployment. 569

The Four Most Important Unresolved Questions of Macroeconomics 570

- Question 1: How should policymakers try to promote growth in the economy's natural level of output? 570
- Question 2: Should policymakers try to stabilize the economy? 571
- Question 3: How costly is inflation, and how costly is reducing inflation? 572
- Question 4: How big a problem are government budget deficits? 573

Conclusion 574

Glossary 575

Index 585