

# Introduction to Macroeconomics

ECO1102 Section B, Fall 2011  
(Lecture #1, September 9)

# Today's Lecture...

- Introduce myself
- Learn a bit about you—What is the background of this class?
- Review the course outline
- What I expect from you
  - What annoys me most?

Answering e-mails from students who clearly have missed many classes (e.g., questions about exam dates and chapters covered that I have already answered a number of times in class).
  - What you should expect from me
- Review some micro-economics concepts

# Microeconomics vs Macroeconomics

- *Microeconomics* looks at how households and firms make decisions and how they interact in specific markets
- *Types of questions microeconomics aims to answer:*
  - What is the effect of minimum wages on unemployment?
  - What is the effect of rent controls on the housing market?
  - Why is beer cheaper in Gatineau than in Ottawa?

# Microeconomics vs Macroeconomics (cont.)

- *Macroeconomics* looks at the economy as a whole.
  - Economy-wide phenomena, including inflation, unemployment, and economic growth
- *Types of questions macroeconomics aims to answer:*
  - What can the government of the poorest countries do to promote more rapid economic growth?
  - What can the government do to reduce unemployment?
  - What are the costs (and benefits) of government deficits?
  - What is the relationship between interest rates and the stock market?
  - What is inflation and why is it so high in some countries?

# Example: Mugabenomics

## Galloping inflation in Zimbabwe

- Most valuable banknote: Z\$50 billion (worth 70 American cents)
- At independence, the Z\$ was more valuable than the US\$.

of enforcement, arresting mass-criminals is extremely difficult, especially since many signatory states—now up to 107 after this week's ratification of the Rome treaty by Surinam—are loth to help. But building up a deterrent is even trickier and takes longer. To have credibility, the court must be consistent. Mr Moreno-Ocampo reckons he cannot afford to give in to threats from big shots. ■

### Zimbabwe

## A worthless currency

JOHANNESBURG

The local dollar is fast shrivelling away

WITH prices doubling every few days, Zimbabweans now spend huge amounts of time and energy preventing their meagre cash resources from completely evaporating. Trying to catch up with galloping hyperinflation, now officially running at 2.2m per cent a year and at least four times faster in reality, the central bank has been printing ever bigger denominations. But it is outrun by galloping prices: at last count, the most valuable banknote available was for 50 billion Zimbabwean dollars, now worth barely 70 American cents on the black market, and the stock of Zimbabwean dollars is dwindling. Local cash could become scarcer still, now that the German company that was providing Zimbabwe with paper to print its banknotes has cancelled its contract; the Zimbabwean monetary authorities are likely to turn to a less specialised supplier. Meanwhile, people do not even bother to pick up notes of hundreds of thousands on the pavements of Harare, ▶▶



The tragi-comedy continues

the capital. At independence in 1980, the Zimbabwe dollar was more valuable than the American greenback.

It may seem odd that the local currency is still used at all. From Z\$25 billion to the American dollar at the beginning of this month, the cash exchange rate had jumped threefold within a fortnight. In restaurants or shops, prices are still quoted in local currency but revised several times a day. Salaries are paid in Zimbabwean dollars, still the only legal tender. A minibus driver taking commuters into Harare every day still charges his clients in Zimbabwe dollars—but at a higher price on the evening trip home—and changes his local notes into hard currency three times a day. The local money is losing its relevance.

Zimbabweans spend their local dollars as fast as possible or change them into hard currency on the black market. A parallel system is thriving in back offices and parking lots. Ronald was a civil servant but became a money dealer about a year ago to feed his family. He now makes about \$100 a month, whereas his former colleagues earn the equivalent of less than \$2 a month, enough to buy two loaves of bread. On a recent trip, this correspondent changed money from a central-bank employee running an illegal foreign-exchange business in his own office.

With a strict daily limit (currently less than \$1.40) on bank withdrawals, people shun banks as much as possible and are returning to a cash economy. Petrol and rents are now charged mainly in American dollars or South African rand, but since some landlords have been taken to court, rents are increasingly often paid for in groceries. People buying overpriced cooking oil or sugar on the black market, since those items have long vanished from shops due to official price controls, are charged more if they pay in local dollars. Petrol coupons have become a virtual currency.

John Robertson, a local economist, reckons that the informal economy has probably become larger than the formal one. Though estimates are fuzzy, he believes that money sent by Zimbabweans abroad to friends and relatives at home, which used barely to register on Zimbabwe's foreign-exchange radar screen, now accounts for probably a third or so of the country's foreign-exchange inflows.

Turning to foreign exchange or barter is what you would expect in countries that have had inflation of more than a few hundred per cent a year. At the height of its inflation crisis, shops in Argentina were no longer able to price their goods. In some cases, Peruvians started using lavatory paper, then in short supply, as currency. But Zimbabwe holds the dubious distinction of being the only country in the world today that is suffering from hyperinflation: that is, prices are increasing by more than 50% a month. It has not yet reached Hunga-

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# A Refresher on Supply and Demand (Chapter 4 in MKMR)

## Key objectives:

- Review what determines the
  - demand for a good in a competitive market
  - supply of a good in a competitive market
- See how demand and supply together set the price of a good and the quantity sold

# Markets and Competition

- A *market* is a group of buyers and sellers of a particular good or service.

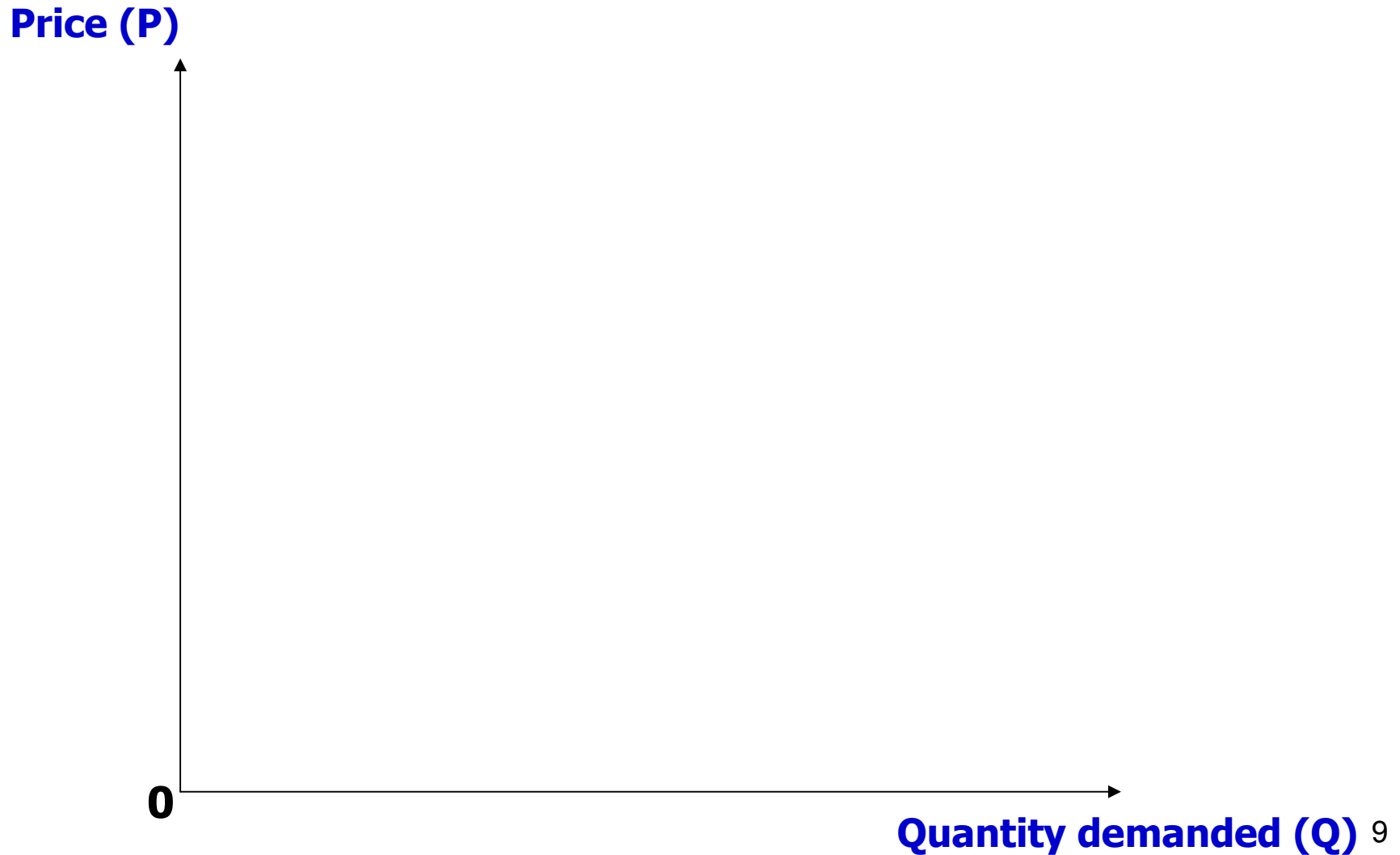


# The Demand Curve

## Definitions:

- The **demand curve** expresses the relationship between **price** and **quantity demanded**
- The **quantity demanded** of any good is the amount of the goods that buyers are willing to purchase at a given price.

# Relationship Between Quantity Demanded and Price



# Shifts in the Demand Curve

- Any change that alters the quantity demanded at every price will shift the demand curve
  - If change increases the quantity demanded for every price: **increase in demand (curve shifts to the right)**
  - If change decreases the quantity demanded for every price: **decrease in demand (curve shifts to the left)**

## Examples of Shifts in a Demand Curve (Fig. 4.3, p. 74)

Price of  
Ice-Cream  
Cone

Suppose consumer income increases

Suppose price of frozen yogurt decreases

0

Quantity of  
Ice-Cream Cones

# The Supply Curve

## Definitions:

- The **supply curve** expresses the relationship between **price** and **quantity supplied**
- The **quantity supplied** of a good is the amount of the good that **sellers** are willing and able to sell at a given price

# Relationship Between Quantity Supplied and Price

**Price (P)**



**0**

**Quantity supplied (Q)<sup>13</sup>**

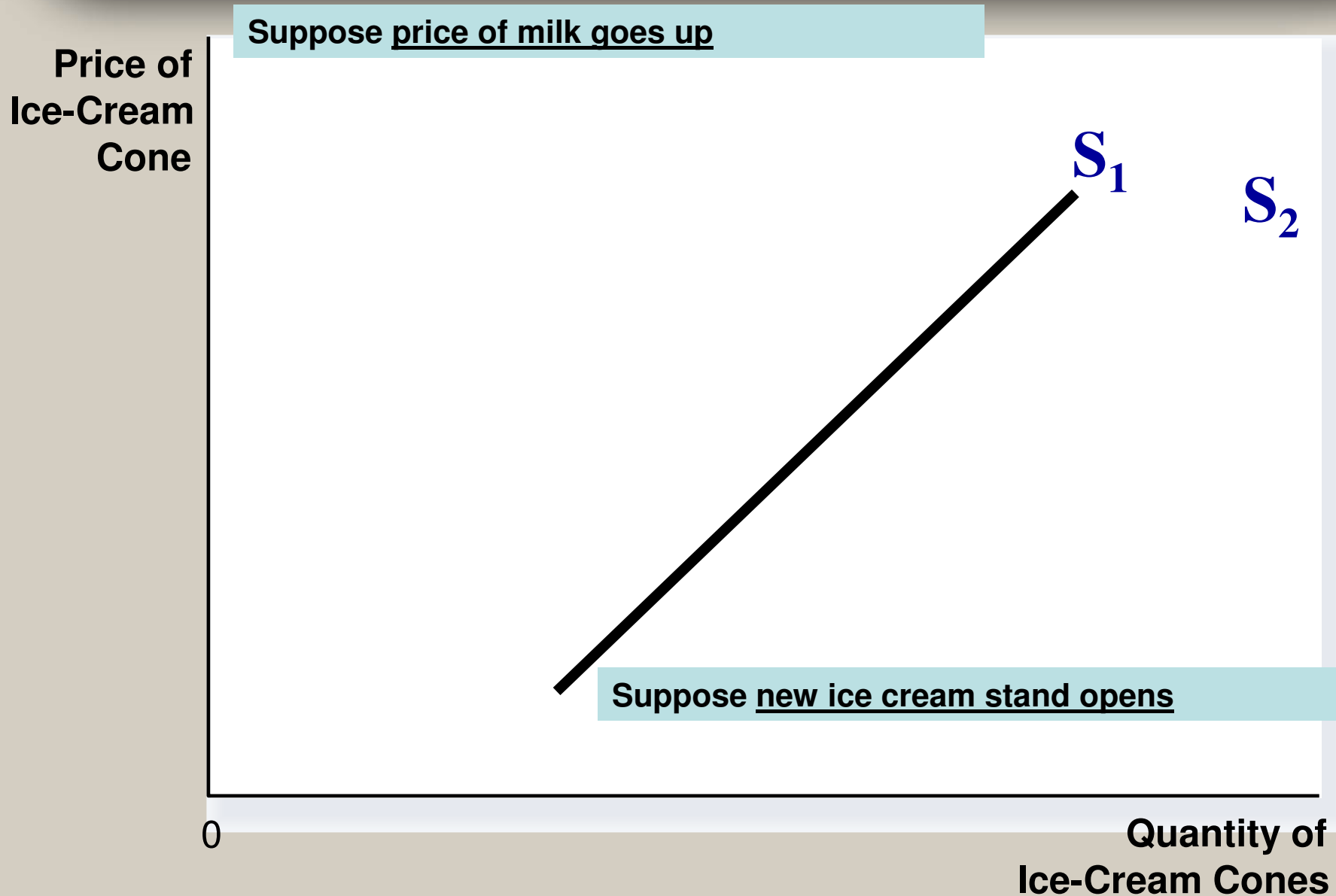


# Shifts in the Supply Curve

- Any change that alters the quantity supplied at every price will shift the supply curve
  - If change increases the quantity supplied for every price: **increase in supply (curve shifts to the right)**
  - If change decreases the quantity supplied for every price: **decrease in supply (curve shifts to the left)**

# Examples of Shifts in the Supply Curve

(Fig., 4.7, p. 80)



# Example of Equilibrium

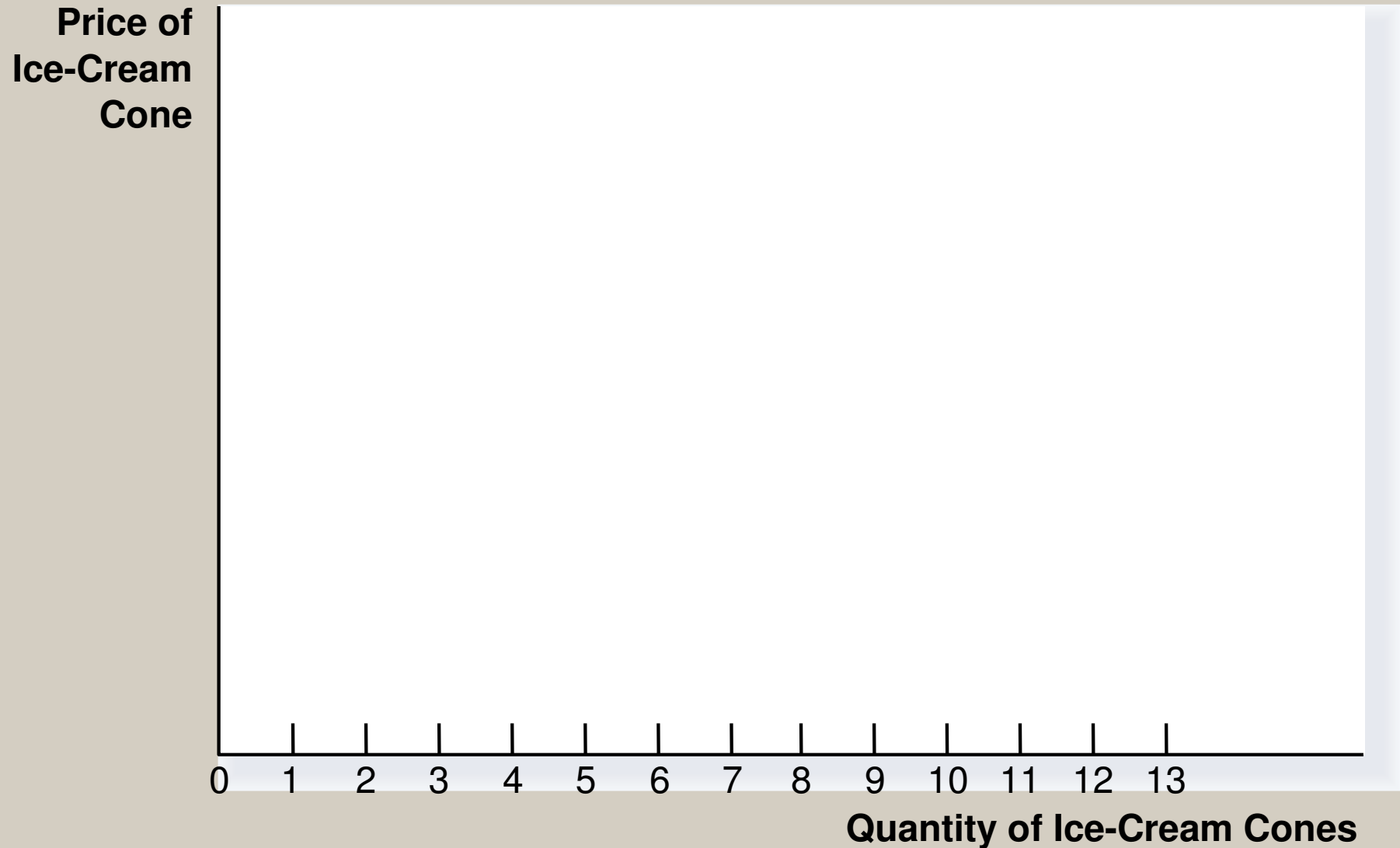
## Demand Schedule (Fig. 4.2, p. 73)

Price of Ice-Cream Cone	Market
\$0.00	19
0.50	16
1.00	13
1.50	10
2.00	7
2.50	4
3.00	1

## Supply Schedule (Fig., 4.6, p. 79)

Price of Ice-Cream Cone	Market
\$0.00	0
0.50	0
1.00	1
1.50	4
2.00	7
2.50	10
3.00	13

# The Equilibrium of Supply and Demand— Graphically (Fig., 4.8, p.78)



# Three Steps in Analyzing Changes in Equilibrium

1. Decide whether the event shifts the supply or demand curve (or both).
2. Decide whether the curve(s) shift(s) to the left or to the right.
3. Use the supply-and-demand diagram to see how the shift affects equilibrium price and quantity

## An example: Problem #3a, p. 91 (MKMR)

3. Consider the market for minivans. For each of the events listed here, identify which of the determinants of demand or supply are affected. Also indicate whether demand or supply is increased or decreased. Then show the effect on the price and quantity of minivans.
  - a. People decide to have more children.