



Macroeconomics

The Big Picture

Topics:

- The History of Economic Thought
- Role of Government
- Fiscal Policy
- The Financial System and Capital Markets
- Monetary Policy
- Trade and Sustainable Development



A new way of thinking: The Old Way?

Discussion question

Some global issues

The History of Economic Thought

Chapter 9, 13, 2 and 3

Our Economic Evolution

The Advanced Free-Market Economy
Economic and Political Systems
Economists and Economic Thinking

Putting it together: Global Economic Development



The Origins of Western Industrial Democracies

Worksheet

What must be present for an advanced, developed economy to thrive?

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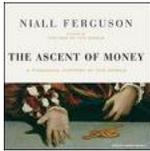
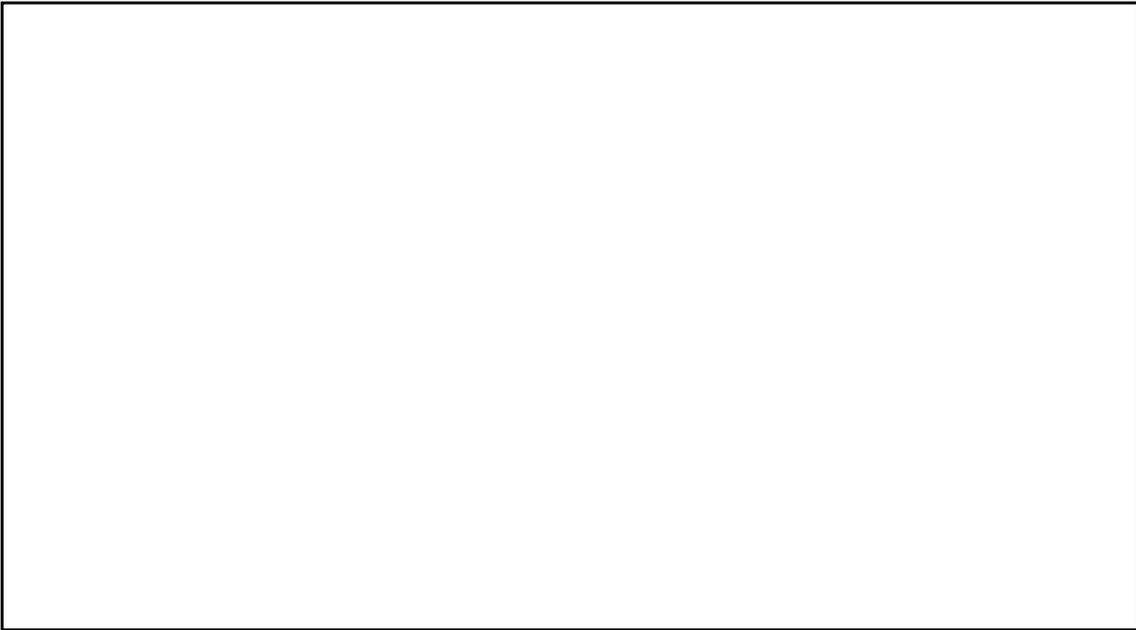
Economic and Political Systems

Economists and Economic Thinking

Putting it together: Global Economic Development

The Essential Ingredients in an
Advanced, Free Market Economy

Case Study: Brazilia



Case Study: Rule of Law

Handout Rule of Law



Mystery Game:

Handout USA versus USSR



versus



Your Mission:

Be the first team who can:

Explain in one sentence, why, despite their high level of education, their wealth of resources, and their government's commitment to and support of research, the Soviets' standard of living was **half** that of the United States.

Step 1: Sort the clues into 3 piles:

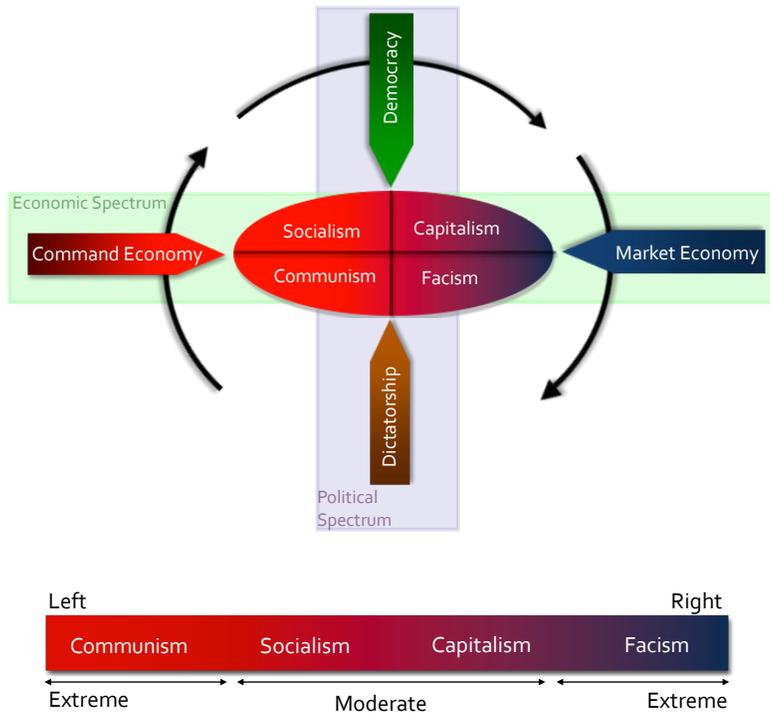
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Political and Economic Spectrums

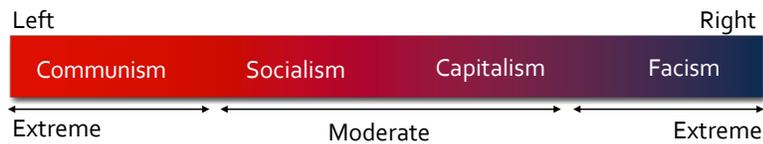


Where do they go?

A vertical stack of five portraits. From top to bottom: Barack Obama, George W. Bush, a man in a suit, a man in a suit, and Joseph Stalin.

Exercise: The Political & Economic Spectrum

Handout Assess Free Markets



The Lesson:





The Role of Governments

According to the system of natural liberty, the sovereign has only three duties...

first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting ...every member of the society from the injustice or oppression of every other member of it, ... and thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain...

Economic Systems

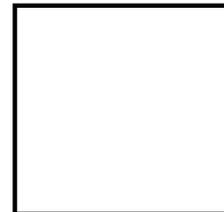
Command Economy Communitistic

Market Economy Capitalistic

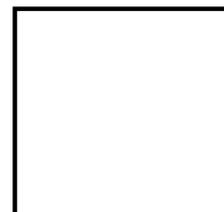


<p>What to produce? Determined by a central authority</p> <p>How? Determined by central authority in best interest of state</p> <p>For whom? Determined by a central authority</p>	<p>What to produce? What will sell for the best price</p> <p>How? As efficiently as possible to keep costs down and max. profit</p> <p>For whom? Whoever can and will pay the price</p>
<p>Pros More growth (capital over consumable goods) Low resource wastage in theory Equitable distribution of wealth Stability, planning eliminates business cycles of recession and boom No hunger or poverty, state provides for all needs</p>	<p>Pros Freedom of individual choice Variety of goods available; greater satisfaction Competition keeps quality high and cost low; efficient use of resources in practice Flexibility of individual choice: can revise choices for new conditions</p>
<p>Cons Bureaucratic and inflexible Limits choice, incentive and initiative, and thus innovation Quantity over quality, as goal is output not profit Less consumer goods, less choice</p>	<p>Cons Manipulation of consumer attitudes by advertising Business cycles of boom and recession Wealth is unevenly distributed Firms tend to merge; Large producers can influence whole market No check against over-usage, or resource depletion, and externalities</p>

No Externalities



With Externalities



delicious
Lessons_CIA
free_markets

Klein versus Friedman

Political and Economic Spectrums

Liberal **Left**
 NDP Progressive, liberal-minded,
 more open to change

Right
 Conservative, traditionalist



Facilitate versus Replace

Market preference

Mixed market (capitalism with a social responsibility)

Fundamental economic beliefs

Don't believe the classical beliefs of Adam Smith work. Free market isn't 100% fair and self-correcting.

Uncontrolled capitalism tends to be exploitive - self-interest can lead to oppression of weak by strong

Free markets are prone to cyclical downturns which can victimize weak or poor (layoffs to protect investors)

Role of the consumer

Big business can manipulate consumer choices through marketing and production, and can collude or act to limit competition.

Distribution of wealth

Capitalism without limits leads to unequal distribution of wealth. Wealthy receive largest share.

Wealth concentration occurs - wealthy get wealthier, while poor stay poor

Role of government

Government should work to limit excess and weaknesses of capitalist free markets

Government should protect common good where free markets and self-interest don't

Market preference

Laissez-faire free-market capitalism

Fundamental economic beliefs

Values views of Adam Smith. Self-interest and competition are invisible hand that guides decisions and lead to efficient equilibrium. Government intervention interrupts this balance.

Free enterprise best meets consumer wants and makes efficient use of resources

Free market best able to adapt and correct itself and promote prosperity

Role of the consumer

Competition ensures consumer is "king" They "vote" for best business with their purchase

Distribution of wealth

Private ownership/profit create incentive to work hard and innovate. Promotes efficiency and wealth creation

Individuals get a fair share of wealth based on work and merit

Role of government

An intrusion that is inefficient or ineffective.

Best restricted to defense, police, education.

More we expect from government, more dependent and helpless we become

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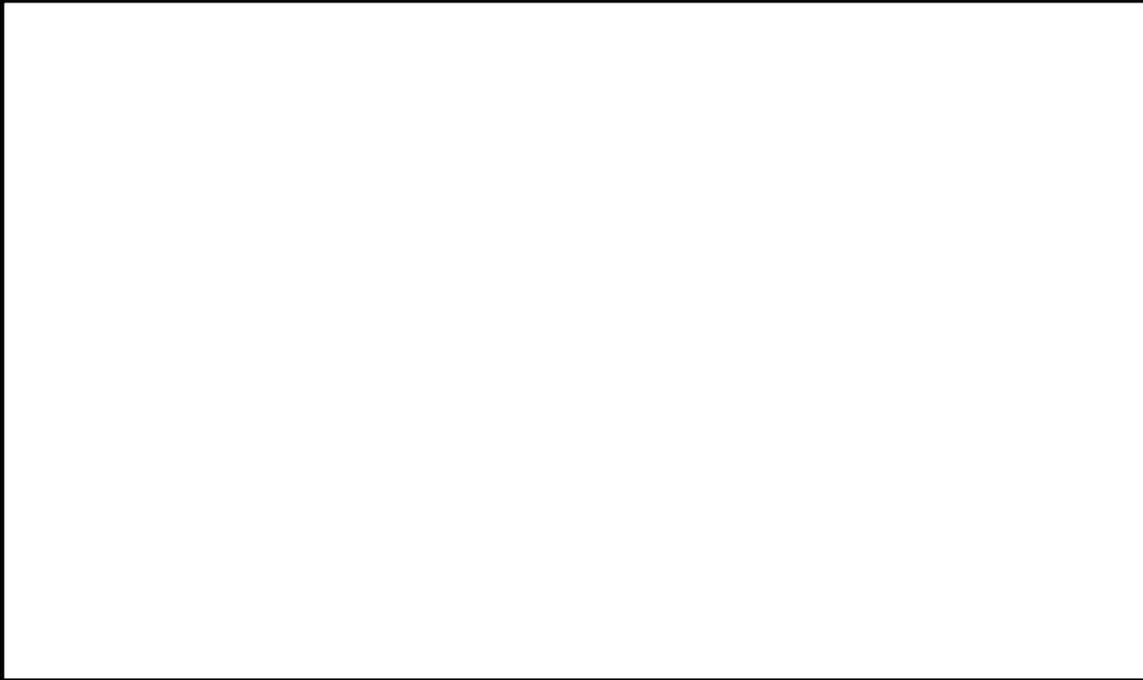
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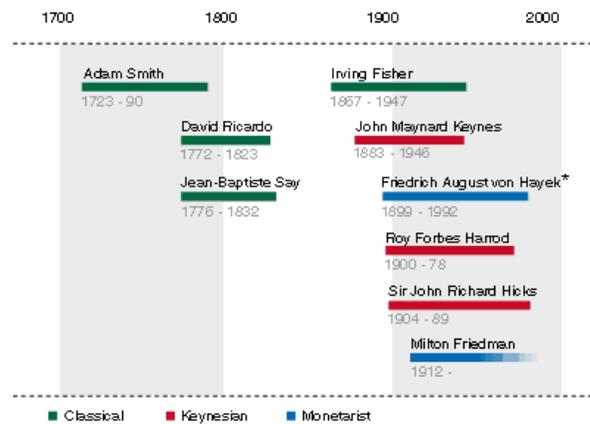
Putting it together: Global Economic Development

Let's play a game!

It's called:



Presentations



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Baraka

 **delicious** world_issues

Handout Baraka

Wealth and Poverty: What does the world really look like?

A Visual Journey

Global Trade

 delicious world_issues

An Illustration of Global Inequality and the Essentials for Economic Development

A Simulation

Take a moment and brainstorm about some of the events and circumstances in this simulation.

What do they relate with in this course?

How are they related?

Economic Development: A Global Challenge

 delicious world_issues

The Essentials for Economic Development

From the video

Do these sound familiar?

Productive Resources

(from intro to the course and unit 1)

Tangible Resources

Land

Natural resources
Raw materials
Water
Fertile soils

Labour

Skilled workforce

Capital

Facilities
Machinery
Equipment
Money Capital

Intangible Resources

Knowledge

Science
Technology
Experience
Education & Training

Entrepreneurship

Organization
Management
Direction
Risk taking
Innovation

Business Environment

Political stability
Economic stability
Social values supporting business
Work ethic

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How can we review all of this?

Learning and Studying

What does the research say?

Multimedia:

Retention is improved through words and pictures rather than through words alone

Spatial Contiguity Principle:

Students learn better when corresponding words and pictures are presented near each other rather than far from each other on the page or screen.

Temporal Contiguity Principle:

Students learn better when corresponding words and pictures are presented simultaneously rather than successively

Coherence Principle:

Students learn better when extraneous words, pictures, and sounds are excluded rather than included.

Modality Principle:

Students learn better from animation and narration than from animation and on-screen text.

Redundancy Principle:

Students learn better when information is not represented in more than one modality -redundancy interferes with learning

Individual Differences Principle:

Design effects are higher for low-knowledge learners than for high-knowledge learners

Individual Differences Principle:

Design effects are higher for high-spatial learners rather than for low-spatial learners

Direct Manipulation Principle:

As the complexity of the materials increase, the impact of direct manipulation (animation, pacing) of the learning materials on transfer also increases

CISCO. (2008). *Multimodal Learning Through Media: What the Research Says*. Retrieved November 22, 2010, from CISCO: <http://www.cisco.com>

The Matrix

Advanced Studying Techniques: making connections

What are the topics? How do you find out?



Big Ideas

Topic: *Private Property*

Topic: *Private Property*

Topic: *Industrial Revolution Video*

X

-from new thinking
-enabled entprnshp.,
profit seeking, and
invention

Limit your idea or topic expression to 6 or 7 words. Use LARGE font.

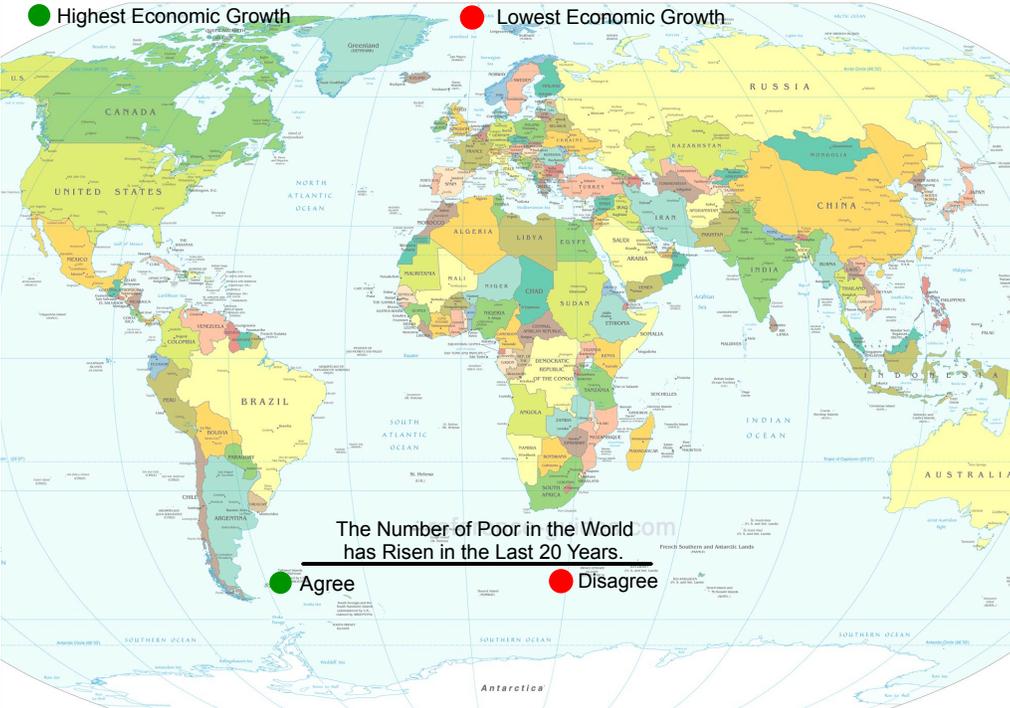
Use Excel 

Big Ideas

Fact and Fiction delicious world_issues

How well do you know your world?

● Highest Economic Growth ● Lowest Economic Growth



The Number of Poor in the World.com has Risen in the Last 20 Years.

● Agree ● Disagree

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How important is data for us to understand?

Data Day

 **delicious** statistics

Finding information in hard facts

The World Bank

TED Ideas worth spreading

Summative

Topic: **May 1st**

Executive Summary: **May 15th**

Final Report: **June 5th**

Role	Audience	Format	Topic	Strong Verb
An Economist	Poor Bolivians	Report	Water privatization scheme	Convince (for or against)
An Union Leader	Rich Bolivians	Report	Perils of privatization	Explain

Role	Audience	Format	Topic	Strong Verb
Students responsible for brainstorming:	Students responsible for brainstorming:	Report (optional)	Students responsible for brainstorming:	Students responsible for brainstorming:

The Overview

- Laws and Fallacies
- Micro vs. Macro
- Law of Supply and Demand
- GDP and GDP/Capita
 - o (Exchange rate vs. PPP methods)
 - o What do they mean, what do they measure?
- Components of the Economy ($C + G + [I - S] + [X - M]$)
- Integration of the Economy
- Inflation
 - o What is it? What causes it? Why is it bad?
 - o CPI – The Consumer Price Index – who is it calculated
 - o nominal vs. real numbers – what's the difference?
- Fiscal and Monetary Policy
 - Interest Rates (Prime/Bank of Canada) and effect on:
 - o Exchange Rates
 - o Capital Markets
 - o Saving
 - o Borrowing
 - o Investing
 - o Spending
 - o Inflation
 - o Economy as a whole
 - Exchange Rates
 - o What affects them? How do you calculate them?
 - Financial Markets
 - o Capital
 - o Capital Markets
 - o Currency, Stock, and Bond markets
 - Components of Trade
 - o Imports, Exports, Balance of Trade, why does it matter?
 - Why Trade?
 - o Absolute/comparative advantage
 - * Causes, consequences
 - o Specialization
 - * Causes, consequences
 - o Components of Industrialization
 - * Mass production, Specialization, Standardization, Segmentation of Time, Application of Technology
 - o Economies of Scale
 - o Learning Curve
 - The Pros and Cons of Trade
 - Trade Barriers
 - o Restrictions, Tariffs, Duties, Subsidies, and Quotas
 - o Effects on world trade and wealth (i.e. Great depression in 1930s)

Deficits split premiers; Ontario set to take plunge

At odds over need to balance books amid crisis, provinces agree Ottawa should avoid cuts to services and transfer payments

STEVEN CHASE and LES PERREAUX AND KEVIN CARMICHAEL

October 21, 2008

MONTREAL -- Canada's premiers emerged from a five-hour meeting on the global financial crisis at odds over whether to run budget deficits in tough times but united in their insistence that the Harper government avoid cutting spending and transfers to provinces if Ottawa veers into the red. "I've got 200,000 people who have lost their jobs, so now I'm going to shut down their hospitals? It just doesn't make any sense," Ontario Premier Dalton McGuinty said. Mr. McGuinty warned that his province will slip into deficit in tomorrow's fall economic update to avoid deeply cutting programs or raising taxes.

The Ontario Premier, who is not facing re-election until 2011, suggested running a deficit is no longer a lethal toxin to Canadian politicians and that he is prepared to be the first premier to see how voters respond to red ink.

Western Canadian premiers, however, said they're very reluctant to run deficits. Saskatchewan's Brad Wall, whose province has the brightest economic outlook next year, said he thinks governments should avoid deficits because they are difficult to end. "To me, I think the Frito Lay [potato chip] people said it well when they said: 'It's tough to stop at just one.' It's easy for economists to recommend these things, but very difficult for politicians of all stripes to ever get out of that cycle."

He echoed Mr. Wall's view of red ink. "It took us a generation to get out of deficits. I am not one of the people that's going to be advocating we go to deficit. It's like an addiction. Once you are there, it's very hard to get off it." Provincial and territorial leaders also vowed to increase infrastructure spending and urged the federal government to do the same.

"Infrastructure spending - we should accelerate it; everyone should," said Quebec Premier Jean Charest, who called the meeting.

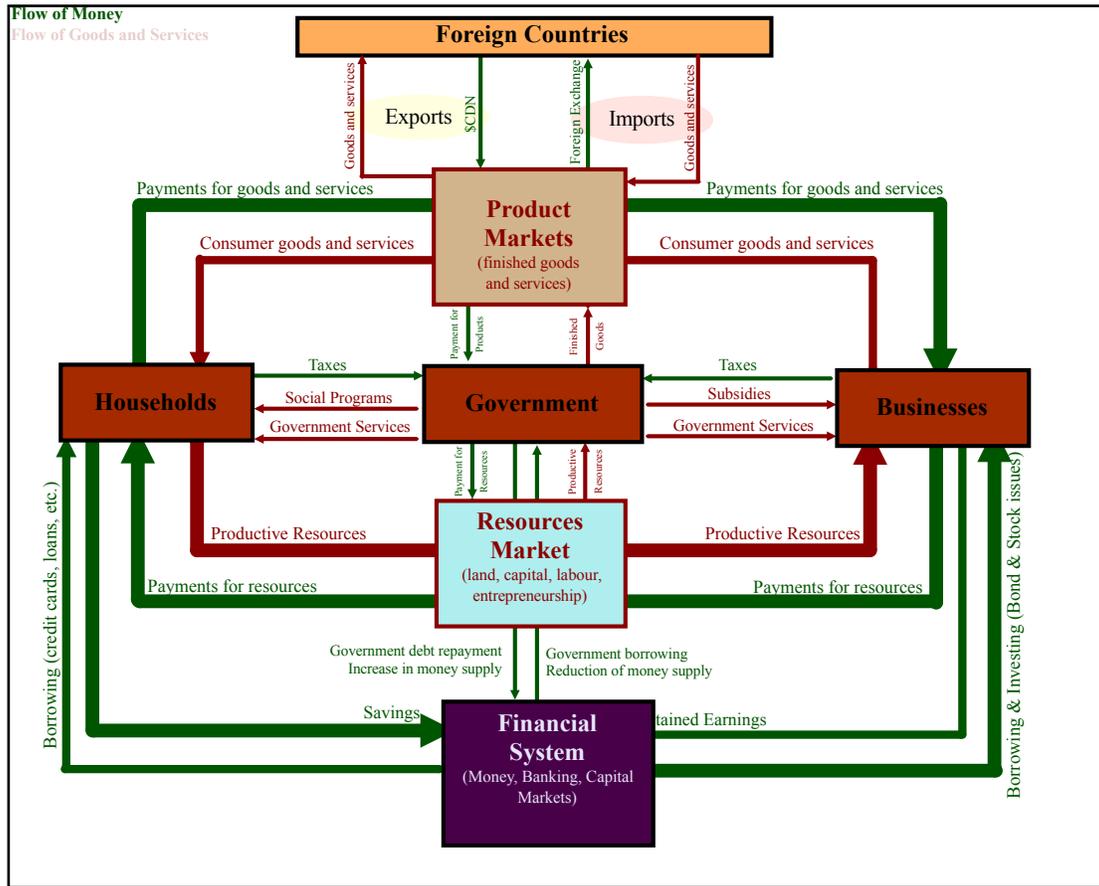
Goldman predicts massive U.S. spending program

Andrew Willis, October 22, 2008 at 10:47 PM EDT

If **Goldman Sachs'** economists know anything about the U.S. economy, and I credit them with more than a little understanding of this file, then a massive round of government stimulus is on the way.

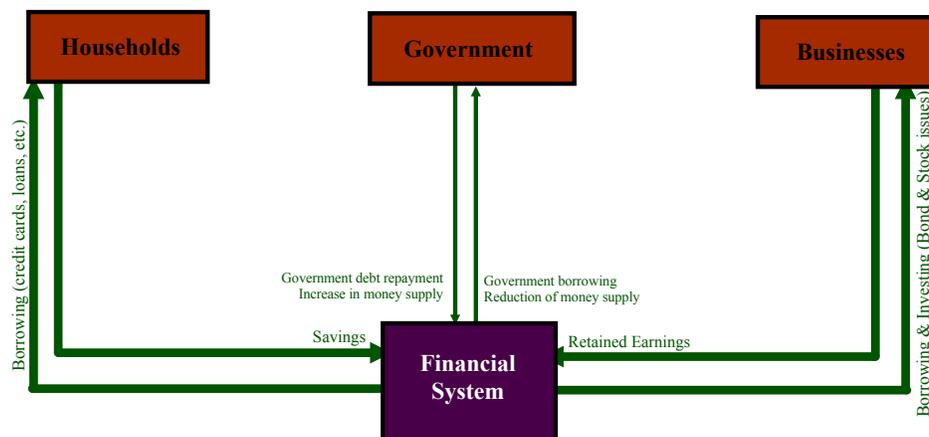
Picking up on jungle drums in Washington, Goldman economists Alec Phillips and Andrew Tilton said in a report Wednesday that "given a deteriorating economy and what appears to be broad-based political support, we think additional fiscal stimulus is all but inevitable." The two economists see the next American President doling out between \$150-billion and \$200-billion to kick-start business and restore confidence - and Goldman's view is the package will come in at the high side of that estimate. The money could come as early as late November; by February at the latest.

Goldman predicts the new package will feature some combination of tax rebates, a tax withholding holiday or lower-income tax breaks as way to restore consumer confidence. How else will all this money be spent? Mr. Phillips and Mr. Tilton said: "Early discussions have focused on infrastructure spending, an extension of unemployment benefits, and relief to state and local governments, though additional consumer stimulus could clearly enter the picture."



Capital Markets

How do they work?



Stock Markets (Equity)

Bond Markets (Debt)

- Have ownership and voting rights in a business
- Last to be paid off in a bankruptcy
- Value is linked to expectation of future cash flows of business
- Some may pay **dividends** (return of profits to owner) but don't have to
- Dividends are not fully taxable

- No ownership or decision-making rights
- Bondholders have priority claim on the assets when bankrupt
- Pay **interest** at a stated annual rate on a "face value" or "principal"
- Interest is fully taxable

