

What Macro do (Undergraduate) Students Need?

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QAA Subject Benchmarking

- Economics (Nature and context)
 - 2000, 2007
- Understanding
 - How resources are (generated and) used
 - How households and firms behave and interact
 - The role of institutions (e.g. govt) and mechanisms (e.g. auctions and contracts) in these processes
 - The understanding should be at an individual (micro) and aggregate (macro) level
- The analysis undertaken should be both static and dynamic
- This should all be studied in an international context

The Economist's Approach

- Key features/abilities
 - To abstract and simplify in order to identify and model the essence of a problem
 - To analyse and reason both deductively and inductively
 - To marshal evidence and to assimilate, structure and evaluate quantitative and qualitative data
 - To communicate concisely to a wide audience
 - To think critically about the limits of analysis in a broader socio-economic context
 - To draw policy inferences, to recognise the potential constraints to their implementation and evaluate efficacy of policy in relation to outcomes.

Knowledge Base

- A coherent core of economic principles
 - The microeconomic ones of decision and choice, production and exchange, principal/agent relationships and economic welfare
 - The macroeconomic issues of employment, national income and the balance of payments, the distribution of income, inflation, growth, business cycles, money and finance
- Economic policy both micro and macro
- Understand the role of model-based argument and different methodological/modelling approaches
- The sources and uses of economic data and appropriate methods for its analysis
- Selected “field” studies
 - E.g. Labour economics, development economics, industrial economics, experimental economics etc.
 - Blending theory and empirical evidence

So, what Macro? (1)

- The “big picture”
 - Trends in economic data (macroeconomic variables)
 - Understanding the data
 - Definitions and measurement
 - E.g.
 - GDP
 - Composition, level and growth
 - Nominal and real
 - Price indices
 - GDP deflator, CPI etc.
 - Labour market data
 - Unemployment rates, vacancy rates etc.
 - Also, know how to read a set of National Income Accounts
 - Students need to know this but at what stage in the degree should this empirical knowledge and understanding be best delivered?

So, what Macro? (2)

- Suggested elements of a macroeconomic model for teaching
 - The framework should be one of multiple markets and so have a general equilibrium nature
 - There should be dynamics, so inter-temporal linkages
 - It should incorporate real sectors (goods and labour markets) and financial sectors (asset markets and a banking system)
 - It should be open
 - Account should be taken of informational features such as expectations and learning
- Question: How is this understanding best constructed?

So, what Macro? (3)

- A suitable model to analyse and study the short and medium terms
- Analysis of the long-term (growth and progress) can probably come later
- The model should be suitable for interpreting what policy makers are doing and structuring student thinking about economic events (national and international)
- The New Keynesian model with its “sticky” prices is a tried, tested and well-understood workhorse
- Amenable to graphical and mathematical forms of analysis

So, what Macro? (4)

- Short/Medium Run
 - Three key elements
 - Goods market
 - Factor market
 - Financial market
 - Modelling monetary policy and central bank behaviour
- Conduct simple policy analyses to explore impacts on output and inflation
- Discuss the potential sources of business cycles?
- Consider the implications of openness in goods and financial markets?

So, what Macro? (5)

- Students should now have a coherent, though simplified, analytical framework that will help them to understand economic events in the short to medium term.
- The next steps
 - Expectations in factor, goods and financial markets
 - How forward looking?
 - Their dynamics?
 - Asset markets and links between asset values and agents' decisions
 - Information issues
 - Microeconomic foundations: agents' preferences and the constraints they face
 - Open economy and exchange rate regimes
 - Crises – sources and forms of response

So, what Macro (6)?

- The long term
 - Economic growth and its sources
 - Long cycles?
- Other points
 - This is all pretty “core” stuff, so what should be in advanced undergraduate training in macro?
 - Detailed modelling of asset, banking and financial markets and the way they impact on the real economy?
 - Formal DSGE?
 - Real business cycle?
 - Other approaches?
 - Political economy?
- General point
 - Students need to be convinced that the macroeconomics we teach them is relevant to making sense of what policy makers are doing and that it is also addressing the needs of policy makers