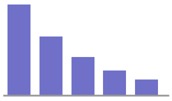
The Macroeconomy

A-Level Economics ▪ Topic 9

A-Level Economics



What we will cover

1. The multiplier
2. Growth & the output gap
3. Unemployment
4. The Phillips curve
5. Money & banking
6. The money market

investment drives growth

1 The multiplier

The multiplier

An injection of spending raises income, which raises further spending:

$$k = \frac{1}{\mathrm{MPW}} = \frac{1}{1 - \mathrm{MPC}}$$

A larger **MPC** 边际消费倾向 (or smaller withdrawals) means a larger multiplier.

The accelerator and what drives spending

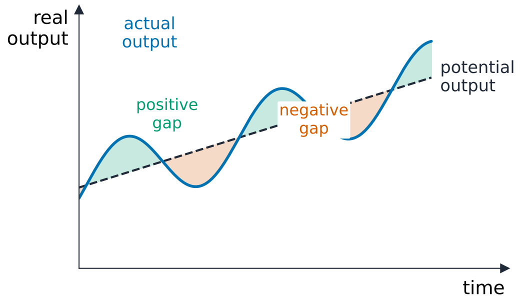
consumption & saving
disposable income
可支配收入, wealth, interest, confidence

investment 投资
interest, expected profit, technology, confidence

The **accelerator** 加速数: investment depends on the rate of change of output – it jumps when demand rises fast.

2 Growth and unemployment

Growth, the output gap and sustainability



The **output gap** 产出缺口 is actual minus potential output.

- positive gap → inflation
- negative gap → spare capacity, unemployment

Sustainable growth 可持续增长 weighs output today against tomorrow.

Unemployment

frictional 摩擦性失业 – between jobs (short)

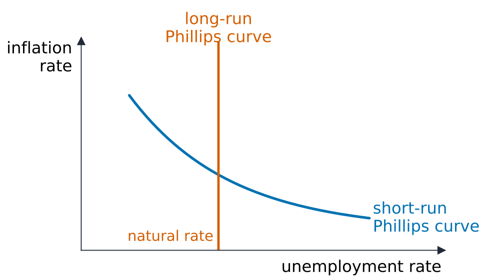
cyclical 周期性失业 – low demand in a recession

structural 结构性失业 – skills no longer match

seasonal 季节性失业 – only at certain times

> The **natural rate** 自然失业率 (frictional + structural) cannot be removed just by raising demand.

The Phillips curve

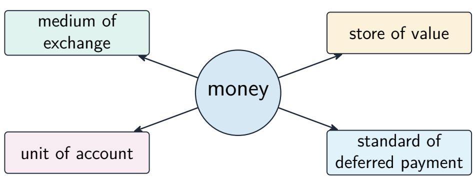


The **Phillips curve** 菲利普斯曲线 links unemployment & inflation.

- short run – a trade-off: less unemployment, more inflation
- long run – vertical at the natural rate; no lasting trade-off

3 Money and banking

The functions of money



Money 货币 does four jobs:

- **medium of exchange** 交换媒介 – avoids barter
- **store of value** 价值储藏 – save it
- **unit of account** 记账单位 – measure prices
- **deferred payment** 延期支付标准 – borrow & repay

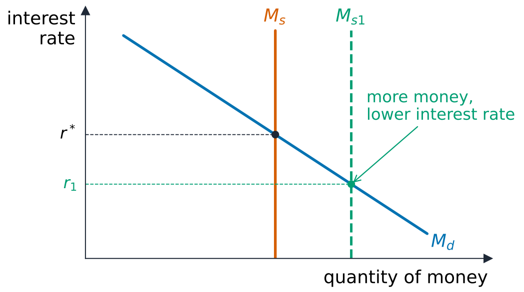
The Macroeconomy
└Money and banking

Banks

- the **central bank** 中央银行 runs policy & is **lender of last resort** 最后贷款人
- **commercial banks** 商业银行 take deposits & lend – creating money

Moral hazard 道德风险: banks may take big risks expecting a bailout.

The money market



People hold money for its **liquidity** 流动性 (**liquidity preference** 流动性偏好).

> The **interest rate** 利率 is set where money demand meets the **money supply** 货币供给; a larger supply lowers it.

4 Recap

Worked example – the multiplier

MPC $= 0.8$. Find the multiplier, then the effect of a £10bn rise in investment.

- $k = \dfrac{1}{1 - \text{MPC}} = \dfrac{1}{1 - 0.8} = \dfrac{1}{0.2} = 5$
- $\Delta Y = k \times \Delta\text{injection} = 5 \times 10 = £50\text{bn}$
- The extra spending becomes someone's income, 80% of which is spent again, and so on.
- With spare capacity that is real output; near full employment it is mostly inflation.

> $k = \frac{1}{1-\text{MPC}} = \frac{1}{\text{MPW}}$. A bigger MPC ⇒ bigger multiplier. Leakages (saving, tax, imports) shrink it.

Topic 9 – key takeaways

1 Multiplier

$1/(1 - MPC)$; an injection multiplies

2 Output gap

positive → inflation; negative → slack

3 Phillips curve

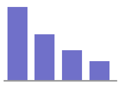
short-run trade-off; long-run vertical

4 Money

four functions; banks create money

Check yourself

1. If MPC $= 0.8$, what is the multiplier?
2. A positive output gap tends to cause what?
3. The long-run Phillips curve is what shape?
4. Name one function of money.



Answers **1.** 5 **2.** inflation **3.** vertical (at the natural rate) **4.** medium of exchange / store of value / unit of account