



# *An Introduction to Macroeconomics*





# Macroeconomics and economic outlooks

- ❑ *Macroeconomics* investigates economic systems *in the aggregate*.
- ❑ Throughout the course, we will focus on aggregate variables.
- ❑ For instance, the lectures will focus on:
  - the overall production in the economy,
  - families' aggregate consumption,
  - firms' total investments,
  - the average level of prices, etc.



□ We will instead deliberately neglect the composition of aggregate variables, which is rather the focus of Microeconomics, Industrial Organization, etc.

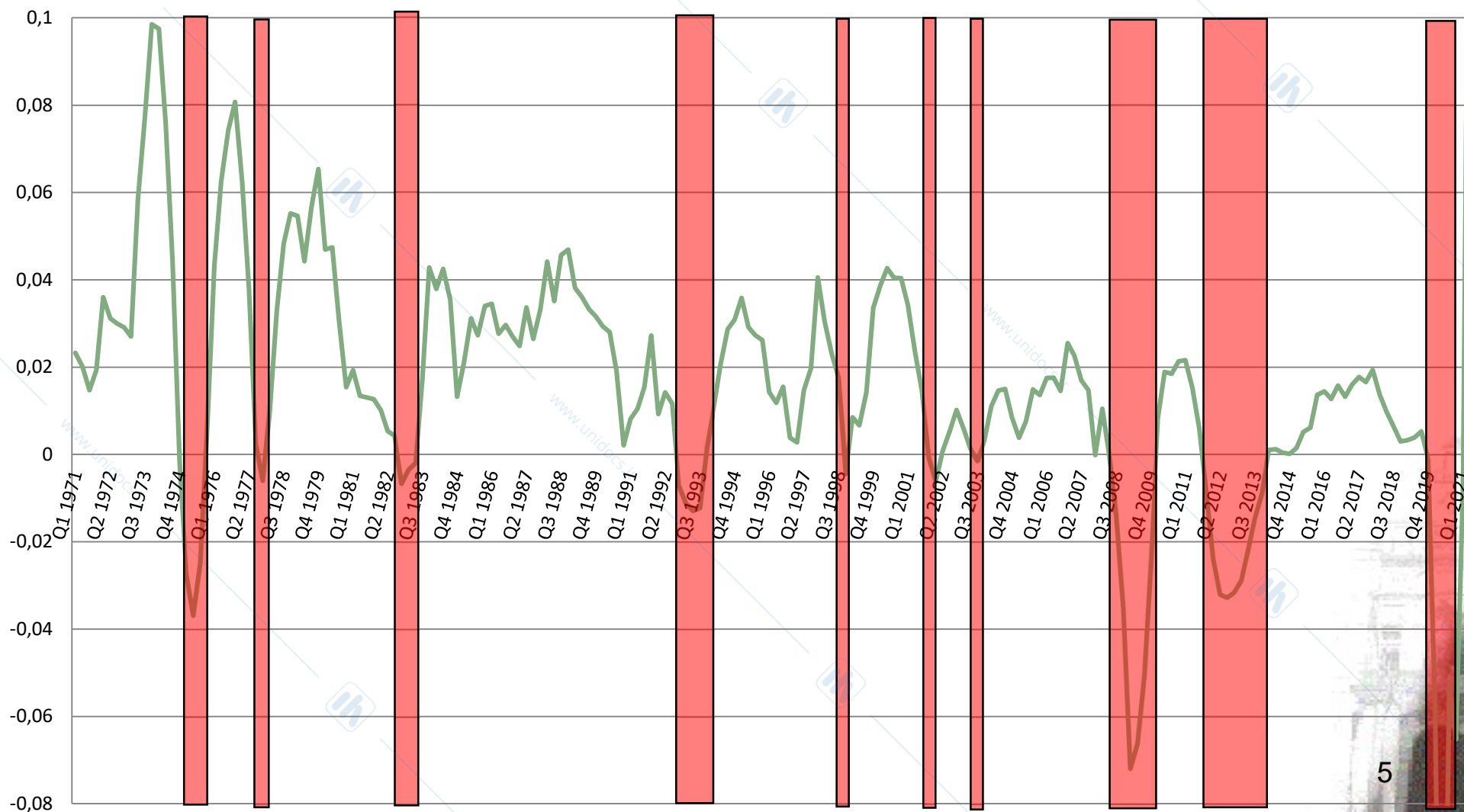




- ❑ Macroeconomics focuses essentially on the *level* and on the *behavior* over time of aggregate economic activity.
- ❑ In particular, the changes in the level of economic activity over time are especially important for the macroeconomist.
- ❑ The next slide illustrates the changes of aggregate production in Italy over the period 1971-2021(q2).



## Real GDP changes 1971-2021(q2)

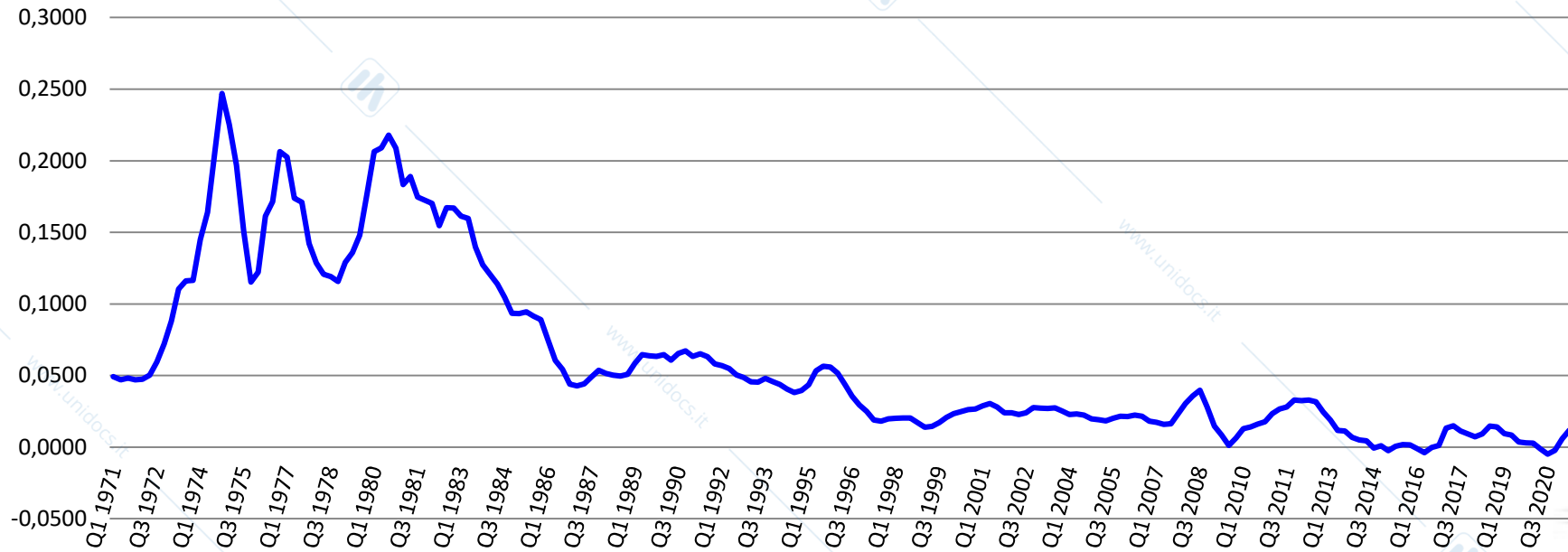




- ❑ The next slide illustrates the behavior of inflation over time ...
- ❑ ... that is, of the percent changes in prices – inflation  
$$=(P_t - P_{t-1}) / P_{t-1}$$
- ❑ You can easily see that there have been periods of high inflation ...
- ❑ ... while low inflation has been observed throughout the last decade.



### Inflation (Consumer Price Index) 1971-2021(q2)





- ❑ The periods highlighted in red in the GDP graph indicate phases in which production growth has been unsatisfactorily low if not negative.
- ❑ This occurred for a variety of reasons:
  - an excessive growth of raw materials and commodities: the oil shocks in 1974-1976 and again – although less dramatically – in 1979-1980;
  - a stagnation – recession in 1983-84;
  - the EMS crisis of 1992 and the recession of 1993;
  - the (mini-)recession preceding the entry in the EMU in 1997.



- ❑ More recently, Italy experienced a recession at the end of 2001 (beginning of 2002), due to a slow-down of the USA economy.
- ❑ Another recession has been observed in the second half of 2003 (beginning of 2004), mainly due to the increased role played by China on international markets.
- ❑ Finally, it is immediate to see the effects of the 2008-2009 recession, the consequences of which are still clearly visible today (2008-2010q1; 2012q1 – 2014q4).
- ❑ Another recession started in the first quarter of 2020 (by definition, whenever a negative variation is observed for two quarters in a row) due to the shock caused by the COVID\_19 pandemic.





# In this course we will

- ❑ define all relevant variables, introducing and investigating the basic characteristics of accounting systems (part 1);
- ❑ determine the aggregate production level under fixed prices and wages (part 2);
- ❑ determine the level of aggregate production in the presence of monetary elements: the “IS-LM” framework (part 3);
- ❑ investigate aggregate production in open economies under fix and flexible exchange rates (part 4);
- ❑ analyze the effects of relaxing the assumption of fixed prices and wages: the “aggregate supply/demand model” and the role of expectations (part 5).