LECTURE 1
Course Introduction and Introduction to Macroeconomic Data

January 22, 2013
OUTLINE

I. COURSE CONTENT

A. Short-run macro policy
B. Course topics
C. Historical and international comparisons
D. Theory and empirical tools
Course Topics

• Monetary policy
• Fiscal policy
• Financial crises
• Nonmonetary factors in recessions
• Long-run impact of short-run policy
Tools of the Course

- Theory
  - IS/LM/MP model and extensions
  - Models of particular phenomena
- Empirical Analysis
  - Linear regression
  - Careful treatment of causation
II. COURSE STRUCTURE AND LOGISTICS

A. Lecture
B. Section
C. Readings
D. Requirements
E. Other information
F. A little advice
Lecture Rules

• No electronic devices (laptops, ipads, phones)
GSIs

- Jeremie Cohen-Setton
- Joshua Hausman
- Andras Komaroni
- John Mondragon
Reading

• *Short-Run Fluctuations* by David Romer.

• Reader with book chapters, journal articles, and policy analyses.

Both are at Copy Central, 2576 Bancroft.
Requirements

• 4 graded problem sets and participation (10%)
• Midterm – Tuesday, March 12, in lecture (25%)
• Short paper – due April 23 (25%)
• Final – Thursday, May 16, 8-11 A.M. (40%)
Other Information

• Office hours
  • Thursdays, 2:00-4:00, 683 Evans

• Course website:
  [http://emlab.berkeley.edu/users/webfac/cromer/e134_sp13/e134.shtml](http://emlab.berkeley.edu/users/webfac/cromer/e134_sp13/e134.shtml)

• Enrollment questions
  • Make sure to attend your first section meeting.
  • Contact head GSI at [headgsi@econ.berkeley.edu](mailto:headgsi@econ.berkeley.edu)
A Little Advice

• Keep up!

• Engage!
OUTLINE

III. A BRIEF INTRODUCTION TO MACROECONOMIC DATA

A. Overview
B. The issue that Davis is interested in
C. Davis’s approach
D. Implications
   1. Nineteenth century business cycles
   2. Business cycles before and after the Civil War
Two Important Messages about Macroeconomic Data

• Just because they’re in a book or on a website doesn’t necessarily mean that they’re correct.

• Just because they’re not in a book or on a website doesn’t necessarily mean you can’t get them.
Example: How Might You Go Wrong Measuring Real Output Using the Dollar Volume of Bank Clearings?

• Bank clearings can move because of changes in quantities or prices.

• Real output might not normally move one-for-one with real bank clearings.

• The relationship between real bank clearings and real output can change.
  – Example: A financial crisis causes people to stop using checks.
How Else How Might You Try to Learn about the Behavior of Real Output in the Distant Past?

- Data on specific types of output
- Data on variables related to output: measures of inputs, exports and imports, financial variables, payrolls, ....
- Historical descriptions of business conditions or economic prosperity.
- Constructing data on as much of output as possible from a wide range of sources.
- ...

Examples of Series that Davis Uses

Series 21: Locomotives
Initial Coverage: 1790 (Product first commercially produced in the United States in 1825; earlier observations are recorded, by definition, as zero in the index).

Details: Direct measure. Author’s tabulations of more than 120,000 engines manufactured from various builder lists, railroad historical society records, firm archives, and published railroad-company histories. For a complete description, refer to Appendix B of Davis [2004a].
Examples of Series that Davis Uses (continued)

**Series 14: Fish curing**
Initial Coverage: 1804
Details: Direct measure. Salted mackerel barrels inspected in Massachusetts (until 1877) and New England (thereafter), as reported in U. S. government publications. Nearly complete industry coverage.

**Series 9: Crude tin imports**
Initial Coverage: 1815
Details: Indirect measure. Unwrought tin from mines of the United Kingdom, British colonies, and foreign countries, exported to the United States by all vessels from all British ports, in long tons, from the *Sessional Papers*.
Examples of Series that Davis Uses (continued)

Series 12: Farm machinery
Initial Coverage: 1790 (Product first commercially produced in the United States in 1833; earlier observations are recorded, by definition, as zero in the index).

Details: Direct measure. Units of reaping and harvesting machinery, including rakers, mowers, droppers, harvesters, binders; and steel plows. Author’s tabulations from firm archives, published firm case studies, and private correspondence. Series records the output of four pioneer and primary farm-implement manufacturers: Obed Hussey, McCormick, International Harvester Company, and John Deere. Series possesses survivorship bias.
Some Basic Information about the Davis Index

<table>
<thead>
<tr>
<th>Production index</th>
<th>New industrial production index</th>
<th>Frickey’s annual manufacturing index</th>
<th>Federal Reserve’s monthly G.17 index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data coverage</td>
<td>1790–1915</td>
<td>1860–1914</td>
<td>Since 1919</td>
</tr>
</tbody>
</table>

Panel A. Share (%) of index components pertaining to:
- Actual production: 76.7, 57.5, 54.8
- Indirect proxy: 23.3, 42.5, 45.2

Panel B. Share (%) of index components obtained from:
- Government sources: 39.5, 72.5, 75.0
- Private sources: 60.5, 27.5, 25.0

Sources: Author’s calculations based on information in Frickey [1947], U. S. Board of Governors of the Federal Reserve System [1986, pp. 34–35, Tables 3.1 and 3.2] and Davis [2002].
The Davis Index and Some Alternatives

Figure II
Comparison with Conventional Postbellum U.S. Industrial Production Indexes
What Do We Mean by “Business Cycle”? 

- One common definition: departures of output from its normal or flexible-price level caused by nominal wage or price rigidity.
The Index’s Implications about the Severity of 19th Century Recessions

### TABLE VII

**Severity of American Prewar Recessions: Cumulative Output Loss**

<table>
<thead>
<tr>
<th>Antebellum recessions</th>
<th>Postbellum recessions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak</td>
<td>Trough</td>
</tr>
<tr>
<td>1807</td>
<td>1808</td>
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<tr>
<td>1796</td>
<td>1798</td>
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<td>1812</td>
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</tbody>
</table>
Banking panics are often reflected in a spike in interest rates.