OUTLINE — October 11, 2017

- Behavioral Economics Clicker Q's
- Overview of Macroeconomics
  - Growth of Total Output
  - Unemployment
  - Inflation
- Models of Macroeconomics

Behavioral Economics

- A very broad overview . . .
- Economic models characterized by
  1. Question
  2. Simplifications
  3. Assumptions about behavior

- Interested?
  - Econ 119 (Psych & Econ)
  - Econ 138 (Behavioral Econ)

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Example: Risk Aversion

- Two payouts, both with same mean (6.50).

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<tr>
<th>Die roll</th>
<th>Payout A</th>
<th>Payout B</th>
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Which would you prefer? A? B? Click C for “either”

Example: Loss Aversion

- Two payouts, both with same mean (6.17) & SD (10).

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Which would you prefer? A? B? Click C for “either”
Example: Loss Aversion

- Do people hate losses more than they like wins?
- If so, implications for risk-taking behavior.
  - You own a stock that you bought for $50 / share and it is now selling for $30 / share.
  - You bought a house for $800,000. If you sold it now, you'll only get $600,000. You've been offered a new job at a good salary that is 1,000 miles away.

Example: Hyperbolic Discounting

- How patient are you?

Macroeconomics

- The economy as a whole
- Three main topics
  - (Long-run) Economic Growth
  - Unemployment
  - Inflation

New meanings of “short” & “long”

- In micro, precise definitions
  - Short run = so short that the firm can't change amount of capital (K)
  - Long run = long enough that the firm can exit or enter or change K

- In macro, not-so-precise
  - Long run = decade-to-decade (10 years)
  - generation-to-generation (20-25 years)
  - Short run = a couple of years or so, maybe more
Growth, Stagnation, or Decline

Comparing Growth & Stagnation

U.S. economy: long-run growth

- Why long-run growth?
  - August 28 class!
  1) Greater quantity of inputs
     - Labor, capital, land
  2) Greater productivity of inputs

Real GDP, 1900 - 2016

Actual versus Trend
Various definitions of “growth”

- Context matters . . . A lot.
- “Economic growth” can mean . . .
  - . . . Long-run increases in potential GDP
  - . . . Long-run increases in actual GDP
  - . . . Short-run increases in actual GDP

Total Output in the Short Run

- Recession
- Depression
- Recovery
- Expansion

Shaded areas = recessions

Note how BAD 2007-09 was!
Unemployment

- Out of work
- Looked for work in the last 4 weeks

Shaded areas = recessions

Definitions

- Price Level (P):
- Inflation
- Stagflation
- Disinflation
- Hyperinflation
- Deflation
Recall: Economic Models

- Models are how economists answer questions
- Each model is characterized by
  1. Question
  2. Simplifications or Abstractions
  3. Assumptions about Behavior
- Change assumption → Change model
- To evaluate policy, compare policy’s results with the counterfactual (what result would have been in absence of policy), not with the past
- Formulate the counterfactual by using models

Pre-1930s Model: “The” Labor Market
What Determines Unemployment?

- John Maynard Keynes

Unemployment is determined by employment which is determined by output produced which is determined by aggregate demand for output

Key idea:
Someone will hire you if they can sell what you produce

What about inflation?

- Phillips Curve (return to this: November 20)
- Prices & inflation depend upon Costs of production which depend upon
  Supply & Demand for inputs which depend upon Expectations of prices and Productivity of inputs and Amount of output produced