



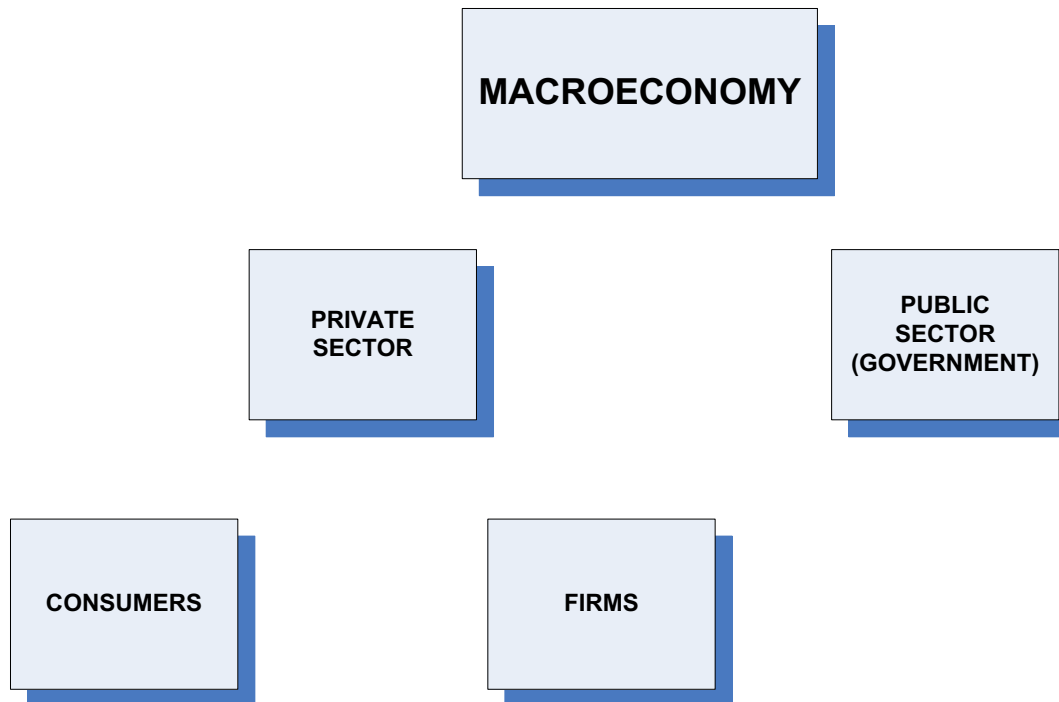
# **INTRODUCTION TO MODERN MACROECONOMICS**



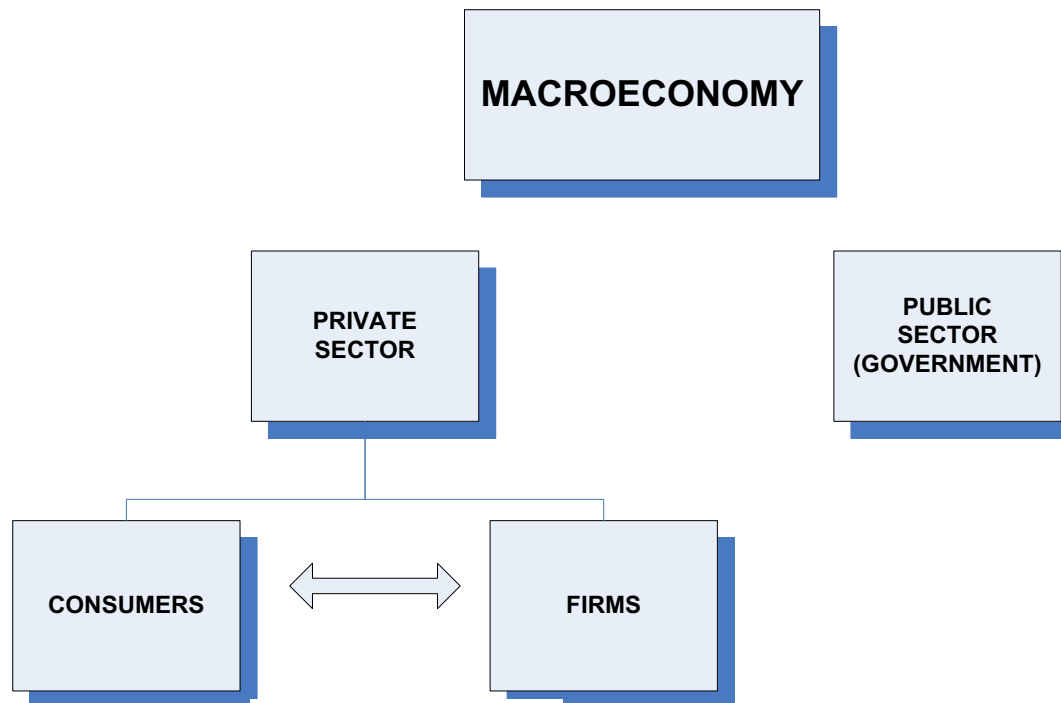
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# **BUILDING BLOCKS OF AN ECONOMY**

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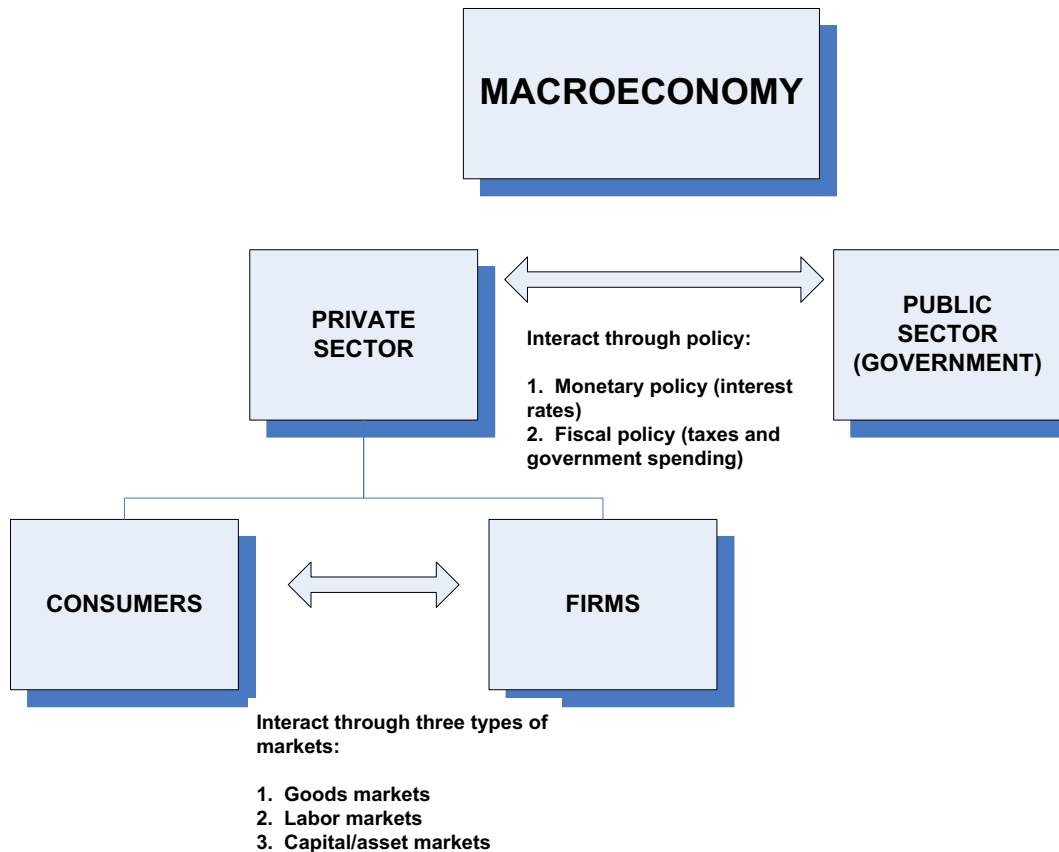
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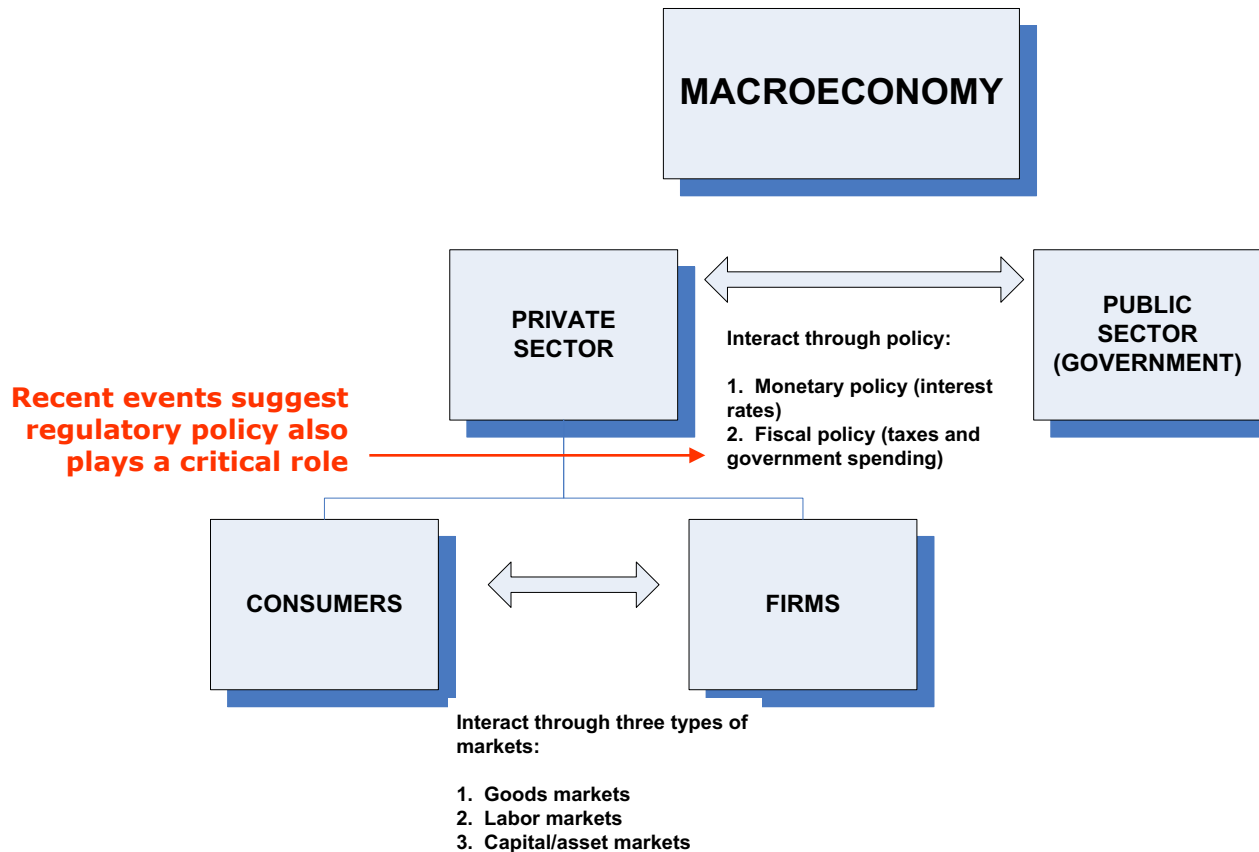
Interact through three types of markets:

1. Goods markets
2. Labor markets
3. Capital/asset markets

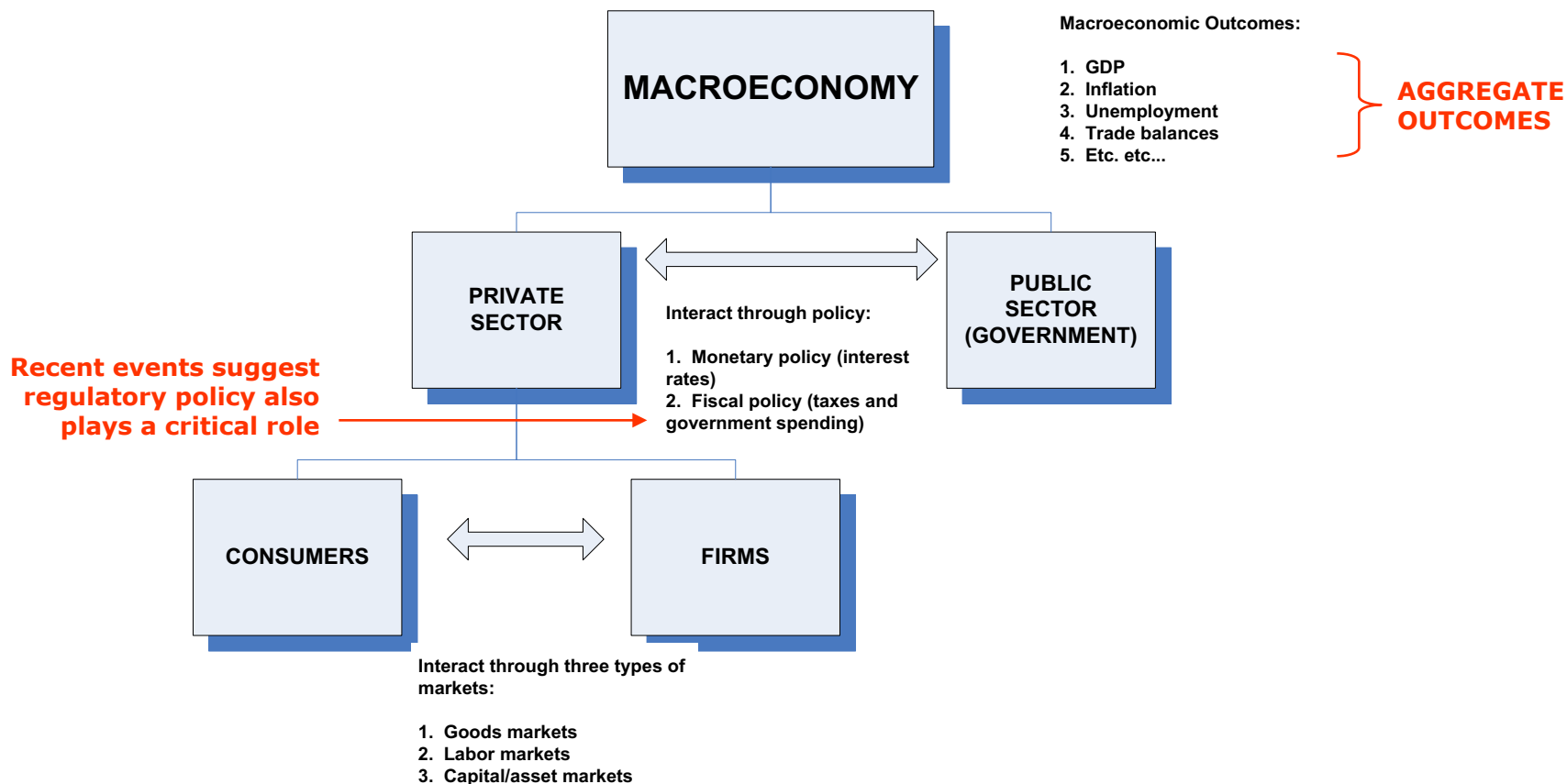
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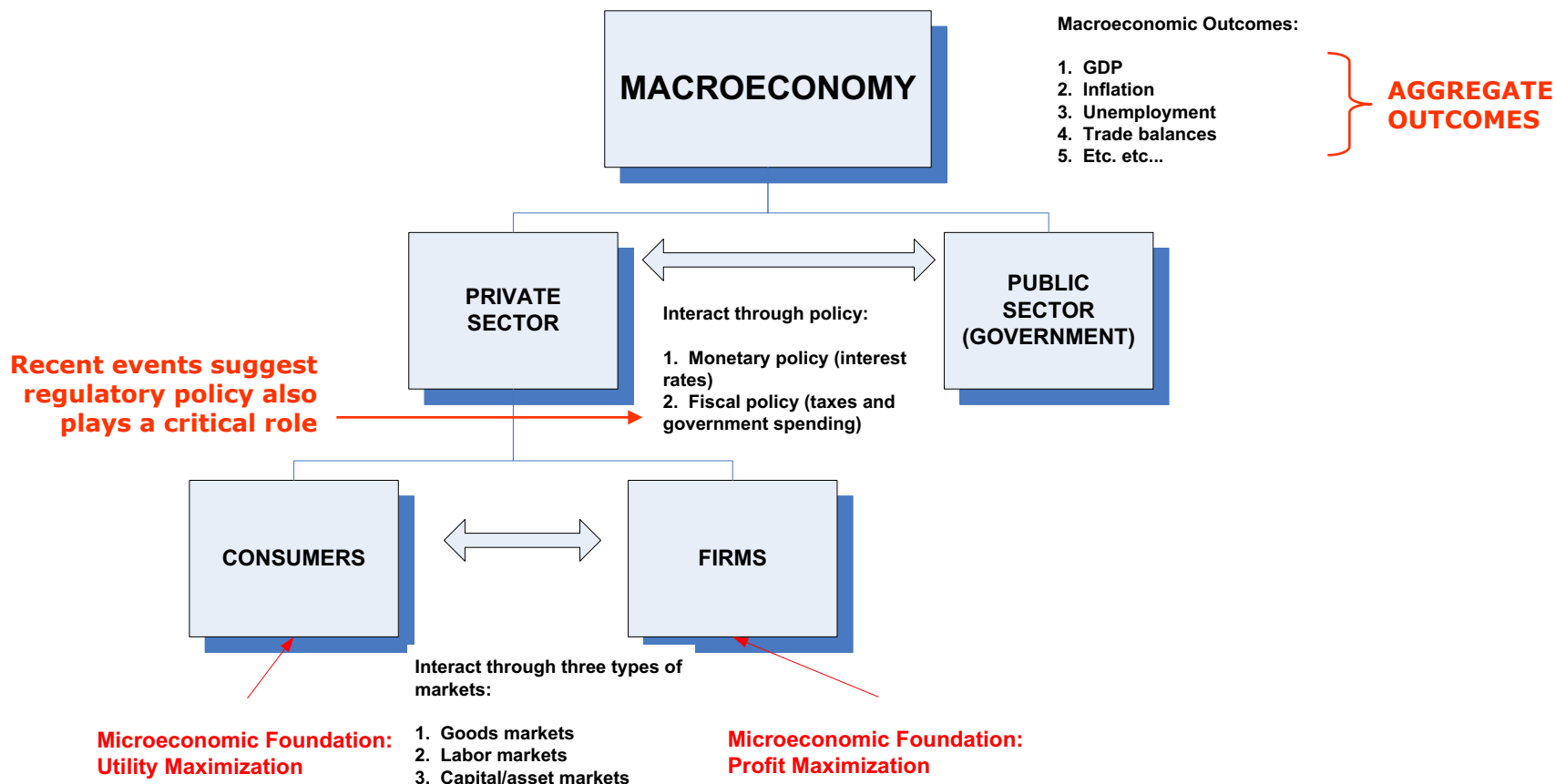
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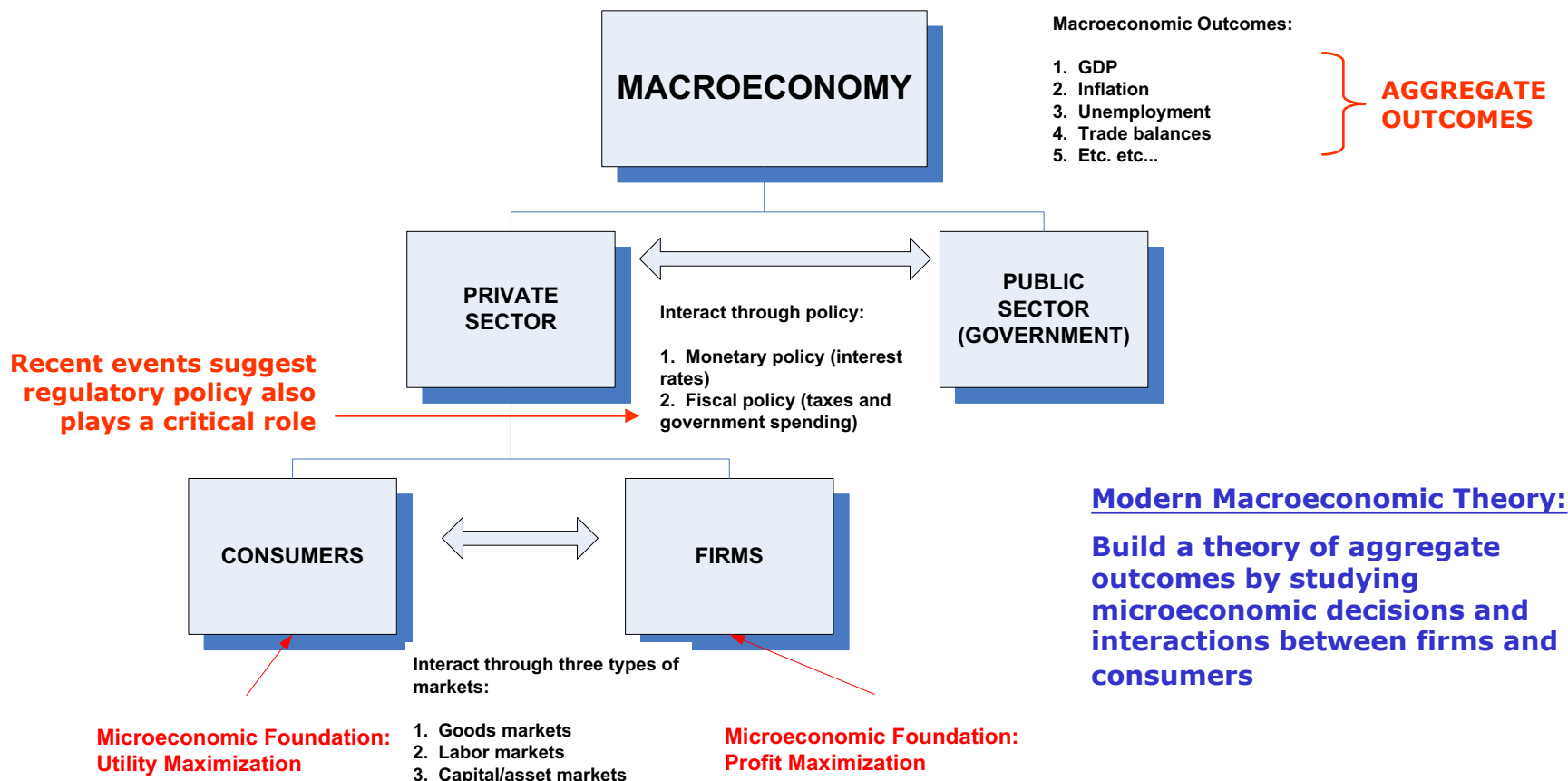
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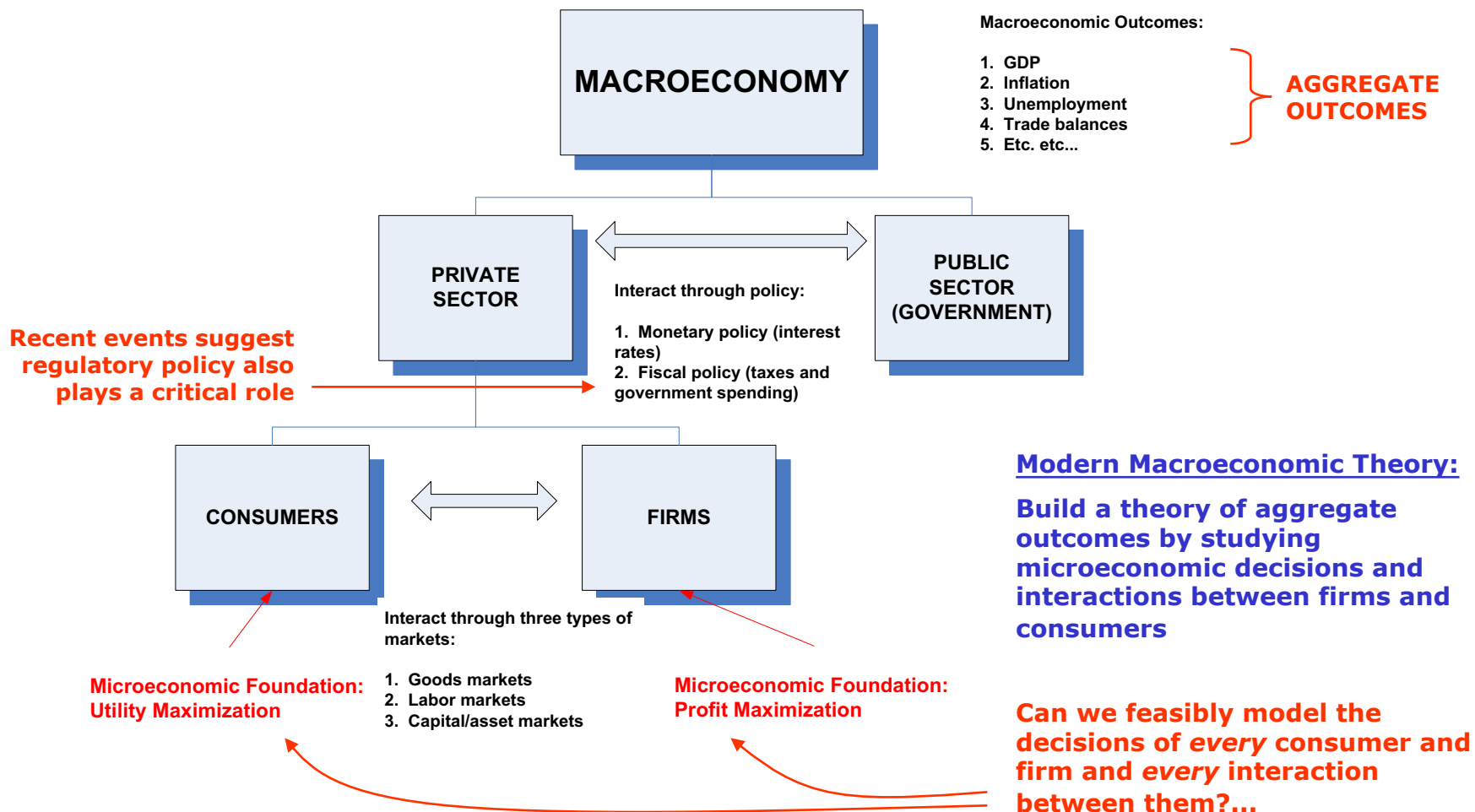


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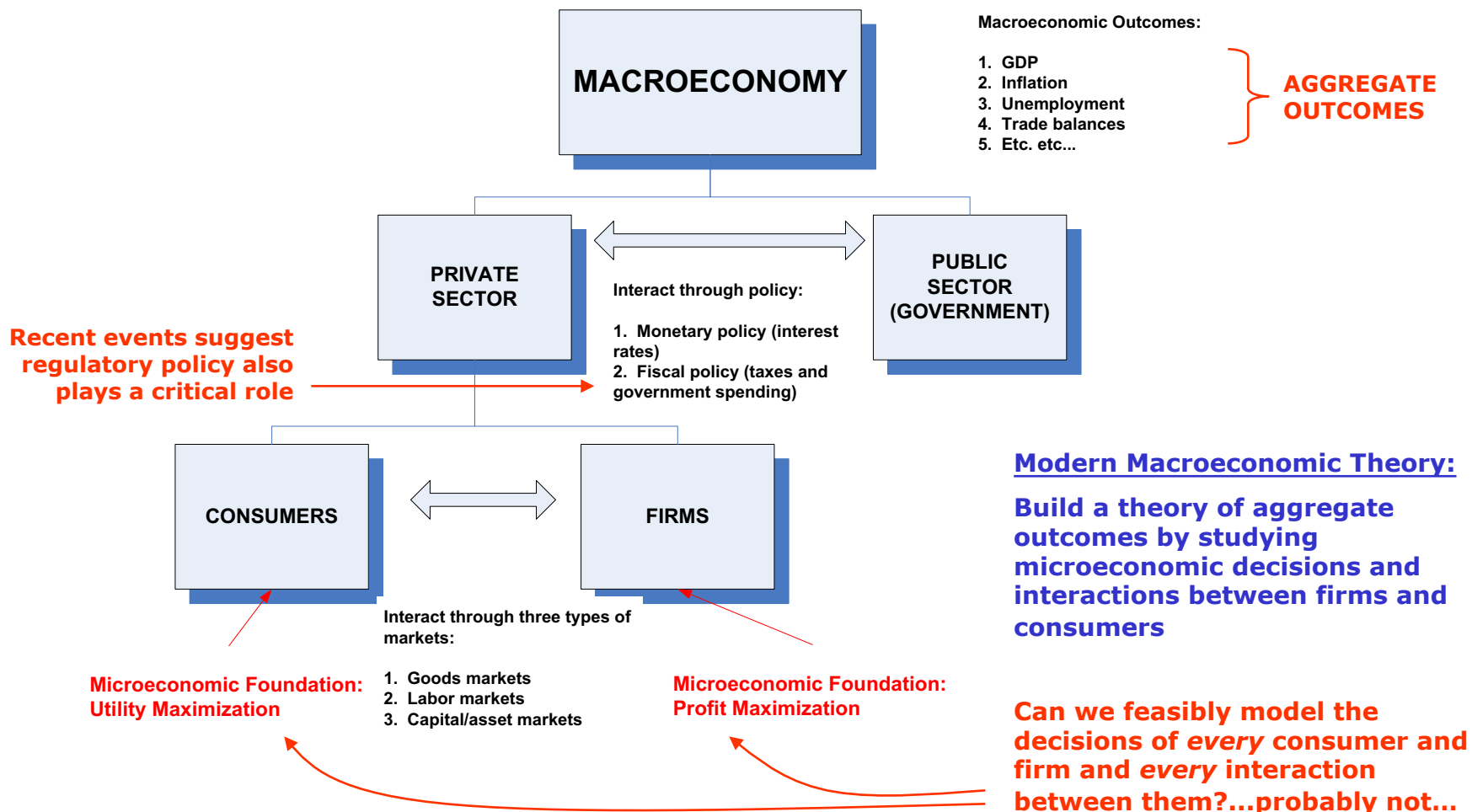




# BUILDING BLOCKS OF AN ECONOMY



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# REPRESENTATIVE-AGENT MACROECONOMICS

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- ❑ **Consumer A: Consumed \$50 in Year X**
- ❑ **Consumer B: Consumed \$75 in Year X**
- ❑ **Consumer C: Consumed \$100 in Year X**
- ❑ **Consumer D: Consumed \$125 in Year X**
- ❑ **Consumer E: Consumed \$150 in Year X**

**No other consumers in the economy**

# REPRESENTATIVE-AGENT MACROECONOMICS

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- ❑ **Consumer A: Consumed \$50 in Year X** No other consumers in the economy
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- ❑ **Consumer E: Consumed \$150 in Year X**
  
- ❑ **Aggregate** (i.e., economy-wide) consumption = \$500
- ❑ **Average** consumption = \$100
  
- ❑ **Macroeconomics often most concerned with aggregate outcomes**

# REPRESENTATIVE-AGENT MACROECONOMICS

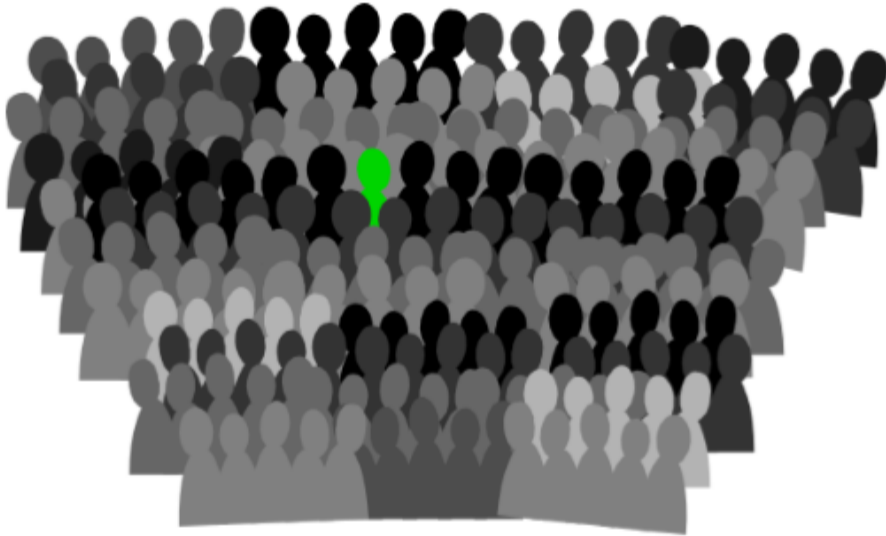
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- No other consumers in the economy
- THE REPRESENTATIVE CONSUMER
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  - ❑ Macroeconomics often most concerned with **aggregate** outcomes
  
  - ❑ If we want to take a micro-based approach to explaining aggregate outcomes...
  - ❑ ...model Consumer C's behavior/decision-making

# REPRESENTATIVE-AGENT MACROECONOMICS

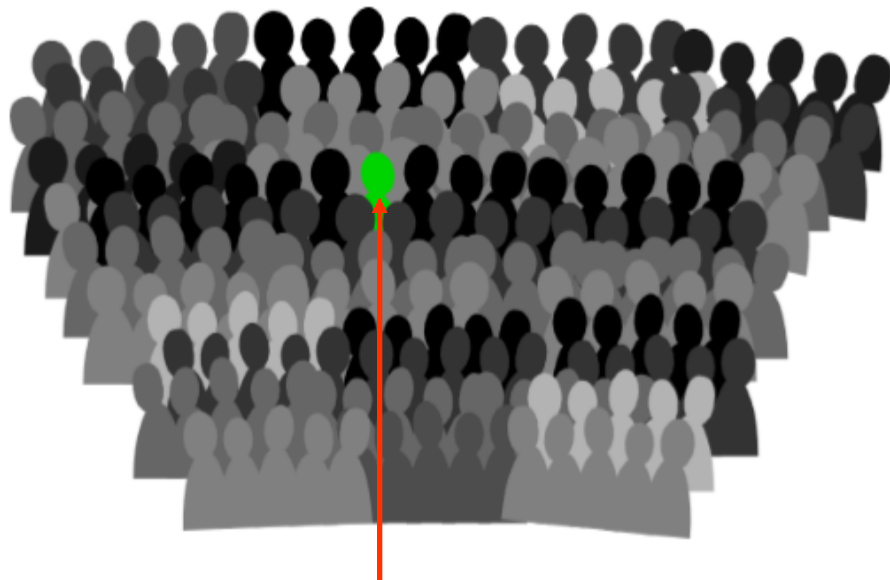
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  - ❑ Macroeconomics often most concerned with **aggregate** outcomes
  - ❑ If we want to take a micro-based approach to explaining aggregate outcomes...
    - ❑ ...model Consumer C's behavior/decision-making
  - ❑ **A simplistic approach – turns out to yield surprisingly rich results, insights, and predictions**

# ADDING UP MICRO DECISIONS

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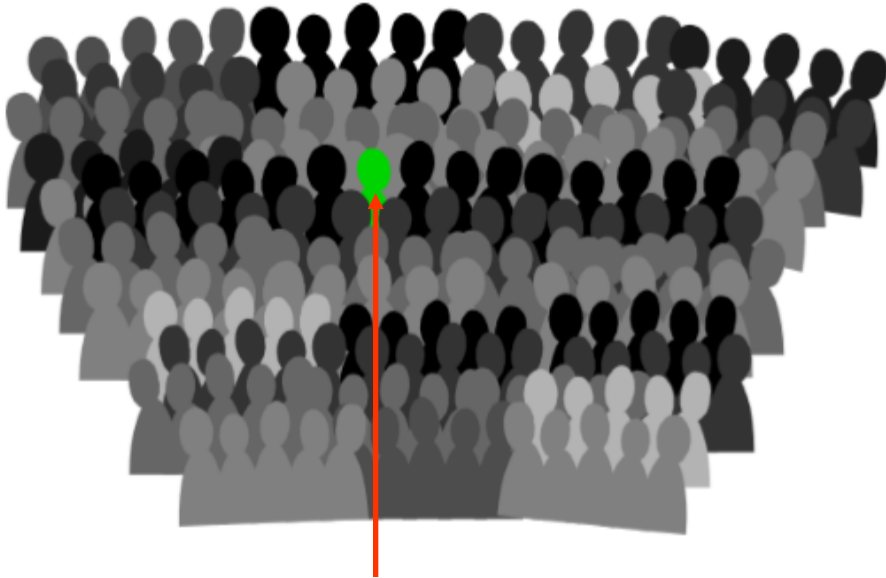
# ADDING UP MICRO DECISIONS



- ❑ Each **individual** makes his/her own best decisions
  - ❑ Taking market prices as given

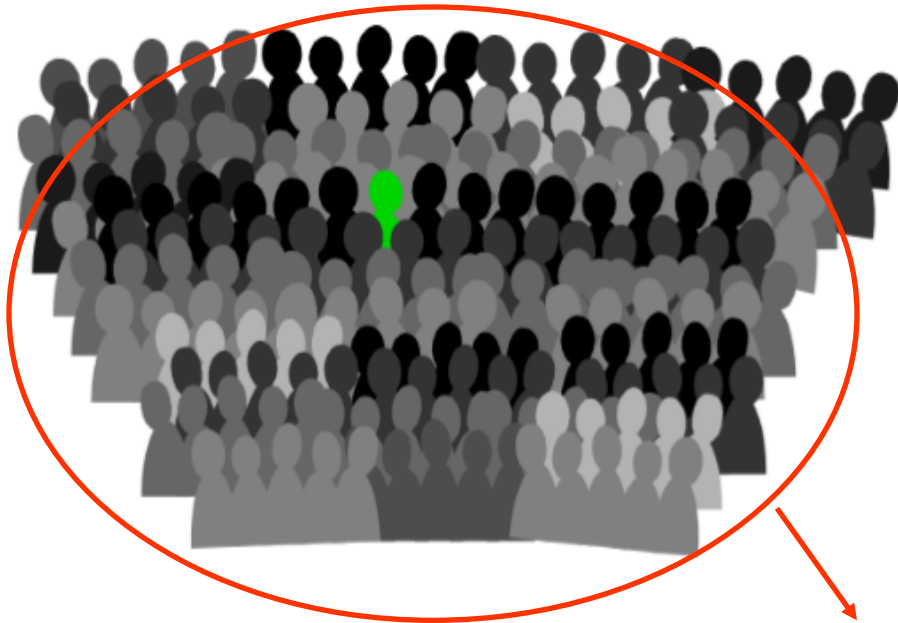


# ADDING UP MICRO DECISIONS



- ❑ Each **individual** makes his/her own best decisions
  - ❑ Taking market prices as given
- ❑ Each **business** makes its own best decisions
  - ❑ Taking market prices as given

# ADDING UP MICRO DECISIONS



**AGGREGATE MARKET  
QUANTITY DEMANDED =  
AGGREGATE MARKET  
QUANTITY SUPPLIED**

