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Master in International Economics and Public Policy 1st Semester

Advanced Macroeconomics

2019/2020 winter term

Damir Stijepic (lecture) and Hoang Khieu (tutorial)

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Part IV

Conclusion

14 What did we learn from the individual fields?

14.1 Economic growth

- Central empirical questions
 - Why are some countries rich, why are some others poor?
 - Do countries converge to the same long-run level of income?
 - Is there a reduction of the poverty rate and of inequality as measured by the Gini coefficient?
- Current view of convergence debate
 - Poverty persists but the absolute number declines
 - Inequality as measured by Gini declines as well but very slowly

- Theory of economic growth
 - From exogenous factors of growth to endogenous, economically determined drivers of growth
 - Policy and politics play a crucial role in shaping the growth path of a society
- Contribution of psychological views
 - Impulse control and savings (Fudenberg and Levine, 2006)
 - Dual-self model provides new determinants (costs of self-control) of saving rate
 - Behavioural growth extends existing views on the growth process and allows for novel predictions
 - Empirical relevance to be investigated

14.2 Business cycles

- Central empirical questions
 - Why do growth rates of countries fluctuate over time?
 - How do we measure these fluctuations?
 - Can we date the beginning and end of a business cycle?
- The current approach to measurement
 - Various type of filters that produce trend vs cyclical component of a cycle
 - Dates of peak and trough of a cycle differ across methods but are sufficiently close
- Theories of business cycles
 - Real-business cycle vs natural volatility vs sunspot cycles
 - Exogenous shocks vs endogenous shocks vs mood
 - Efficient factor allocation vs potential inefficiency vs inefficiency

- Contribution of psychological views
 - Time-consistency and time-inconsistent behaviour is widely observed
 - This might play a role for theories of business-cycles as well
 - Aggregate events that trigger reoptimisation would lead to changes in consumption and saving behaviour
 - Could be used to understand how moods affect production and growth
 - Sunspot models can be carried one step further

14.3 Unemployment

- Central empirical questions
 - How can unemployment meaningfully be defined?
 - How high are unemployment rates in Germany and how do they change over time?
 - How do unemployment rates differ across countries?
 - Who is most affected by unemployment? Skill, age, region ...
 - How often do individuals become unemployed and how many of them (stocks vs flows)?
- The central theoretical questions
 - Why is there unemployment?
 - How can one reduce unemployment?
 - Can unemployment be reduced without creating poverty?

- Theories of unemployment
 - Traditional theories of labour supply (voluntary unemployment)
 - Traditional theories of real wage rigidities (involuntary unemployment)
 - Pure search views – stresses worker’s behaviour
 - Matching models with vacancy creation – stresses the job creation by firms

- Contribution of psychological views
 - Unemployment creates stress
 - Additional channel through which unemployment reduces well-being
 - Economic policy should not orient itself only at material aspects like income and consumption but also at feelings
 - There is a trade-off for policy as well between material growth and well-being

15 Overall conclusion

- A lot can be learned from economic analysis about growth, business cycles, unemployment and other macroeconomic questions
- There are many macroeconomic questions that need further investigation
- Generalizing the “model of man” in economics to allow for more psychological thinking is useful per se
- More psychological thinking also promises to yield a better understanding of macroeconomic questions

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