GUTENBERG SCHOOL OF MANAGEMENT & ECONOMICS

JG|U

Johannes-Gutenberg Universität Mainz

Master in International Economics and Public Policy 1st Semester

Advanced Macroeconomics

2018/2019 winter term

Klaus Wälde (lecture) and Hoang Khieu (tutorial)
www.macro.economics.uni-mainz.de

Contents

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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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