

An introduction to macroeconomic policy

Stuart Sayer, BA, BPhil
Lecturer in Economics,
University of Edinburgh



Butterworth Scientific

London Boston Sydney Wellington Durban Toronto

Contents

- 1 Introduction – objectives, instruments and uncertainty 1**
 - 1.1 Introduction 1
 - 1.2 The objectives of macroeconomic policy 4
 - 1.3 Policy instruments, lags and uncertainty 15
 - 1.4 Summary and conclusions 21

- 2 Policy in the Keynesian Cross and IS–LM models 26**
 - 2.1 Introduction 26
 - 2.2 The Keynesian Cross model 27
 - 2.3 The IS–LM model 36
 - 2.4 Conclusion 49

- 3 The government's financing requirement and the control of the money supply 55**
 - 3.1 Introduction 55
 - 3.2 The government's financing requirement 55
 - 3.3 The definition of money 66
 - 3.4 The techniques of monetary control 72
 - 3.5 Conclusion 79

- 4 The stability of the macroeconomy 86**
 - 4.1 Introduction 86
 - 4.2 Aggregate supply and the classical labour market clearing model 87
 - 4.3 Non-market clearing models 98
 - 4.4 Some criticisms of Keynesian policy 108
 - 4.5 Conclusion 110

- 5 Expectations and inflation 114**
 - 5.1 Introduction 114
 - 5.2 Inflationary equilibrium 115
 - 5.3 Anti-inflation policy 131
 - 5.4 Alternative anti-inflation policies 144
 - 5.5 Conclusions 149

| | | |
|-----------|---|-----|
| 6 | Macroeconomic policy in practice | 154 |
| 6.1 | Introduction | 154 |
| 6.2 | Some problems of interpreting empirical evidence | 155 |
| 6.3 | Econometric models of the UK | 173 |
| 6.4 | The use of the Treasury model | 180 |
| 6.5 | Conclusion | 183 |
| 7 | The politics of macroeconomic policy | 188 |
| 7.1 | Introduction | 188 |
| 7.2 | The political business cycle | 189 |
| 7.3 | Democracy and deficits | 195 |
| 7.4 | Conclusions and evaluations | 197 |
| 8 | Rules versus discretion | 201 |
| 8.1 | Introduction | 201 |
| 8.2 | Three debates | 202 |
| 8.3 | Rules versus discretion in a 'perfect political market' | 205 |
| 8.4 | Political aspects and a general framework | 211 |
| 8.5 | Conclusions | 215 |
| 9 | The open economy | 218 |
| 9.1 | Introduction | 218 |
| 9.2 | Open economy versions of the Keynesian Cross and IS-LM models | 219 |
| 9.3 | Prices, exchange rates and the open economy | 231 |
| 9.4 | Inflation in an open economy | 242 |
| 9.5 | Policy rules and fixed exchange rates | 245 |
| 9.6 | Conclusion | 247 |
| 10 | Summary and conclusions | 255 |
| | References | 259 |
| | Index | 265 |