## Unemployment and Inflation

An Introduction to Macroeconomics

C. V. Brown

BASIL BLACKWELL

## Contents

To the student			viii		
To the teacher					
Acı	Acknowledgements				
Lis	t of s	ymbols	xiv		
Gla	Glossary of microeconomic terms				
Pa	rt I	The basic framework			
1	In	troduction	3		
	Α	The basic model			
	В	The circular flow of income and relationships between markets	8		
	С	The circular flow of income, national income accounting and economic welfare	16		
2	De	etermination of capacity output	25		
	Α	The production possibility curve	28		
	B-	Capacity output in Britain	33		
3	Αę	gregate demand and the determination of output	49		
	A	The determination of output and employment with no inflation	52		
	В	The determination of aggregate demand – a first			
		approximation	53		
	C	Changes in aggregate demand	62		
	D	Conflicts of objectives	72		
	-	E'anna an anna	72		

CONTE	

4	Th	e labour market, unemployment, and aggregate supply	75
	Α	The labour market in a fixprice model	75
	В	The labour market in a flexprice model	81
	C	The 'classical' model	82
	D	Other influences on labour supply and on aggregate	
		supply	84
	E	Characteristics of the unemployed	90
	F	Types of unemployment	94
	G	The Keynesian view of the labour market	105
	Н	Slack (low labour productivity)	107
	I	The aggregate supply curve: summary	108
		Appendix: the relationship between employment and	
		output	110
	_	4	
5	Co	ompleting the basic framework	113
	Α	Why the aggregate supply curve is not horizontal	113
	В	The shape of aggregate demand curve	117
	C	Inflation	120
	D	The costs of inflation	123
	E	Cost-push and demand-pull inflation	126
	F	Introduction to policy implications of the basic model	128
6		I Extending the basic framework  onsumption and savings	139
	Α	Savings and consumption	139
	В	Consumption and income	140
	С	Reconciliation of cross section and time series consumption functions	143
	D	Other influences on consumption	148
7	<b>N</b> 4	oney and the commercial banking system	152
,	A	Money	152
	В	The commercial banking system	156
	Б	The confinercial banking system	150
8	Ce	entral banks and monetary control	171
	Α	Functions of central banks	171
	В	Bond prices and bond yields	174
	C	Central bank control of commercial banks	176
9	In	vestment	184
•	A	The stock of capital and the flow of investment	184
	В	The inducement to invest: I – no inflation	185
	C	Changes in the demand for investment goods	189
	D	The inducement to invest: II – the price changes	193
	E	The accelerator	196

		CONTENTS	VII
10	Forecasting  A Shifts in aggregate supply and aggregate demand  B Lags  C An official forecast  D Private sector forecasting		200 202 205 209 214
11	Effects of monetary changes  A Monetary effects on aggregate demand  B Short-run monetary effects on prices and output  C Monetary changes and the position of the aggregate supply curve	·	216 216 221 226
12	Demand management policies  A Fiscal policy  B The relationship between fiscal and monetary policy		229 229 235
13	Supply management policies  A Cost reductions  B Measures to reduce structural unemployment  C Measures to increase capacity output  D Summary and conclusions		242 242 246 249 253
14	<ul> <li>Rational expectations</li> <li>A The new 'classical' view of the labour market and the expectations-augmented aggregate supply curve</li> <li>B Rational expectations and the price level</li> <li>C Policy implications of rational expectations in the new 'classical' model</li> <li>D Evaluation of rational expectations</li> </ul>	ie	256 254 260 265 268
Pa	rt III The open economy		
15	International trade  A The principles of international trade  B Quotas and tariffs  C The institutions of international trade		276 276 287 291
16	International payments  A Exchange rates  B The balance of payments		298 298 307
17	Economic policy in an open economy  A The framework for economic policy in an open economy  B Economic policy in an open economy	my	314 314 326
Index			334