

KAMRAN DADKHAH

The Evolution of Macroeconomic Theory and Policy



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To Karen with love

Preface

If anyone had a doubt regarding the importance of macroeconomics, the financial and economic crisis of 2007–2009 should have relieved him/her of it. Furthermore, at times the unfolding drama and its historical background was an education in macroeconomics in itself. It seemed everyone was anxious to learn about the causes of the crisis, its turns and twists, and the possible remedies and their effectiveness. This is befitting since macroeconomics as we know it now was the product of another economic crisis.

On Thursday, October 24, 1929 (known as Black Thursday), the stock market crashed. Within a year, the number of jobless workers climbed to more than four million and hungry protesters took to the streets of New York. Thus began the Great Depression, which in the course of the decades to come changed the economies of industrial countries, fundamentally transformed our vision of the economy and economic policy, and brought into prominence a branch of economics that in 1933 Ragnar Frisch christened macroeconomics.

Over the next 80 years the interaction of economic events, economic theory, and economic policy resulted in a body of knowledge that is an integral part of political and economic discourse and indeed of everyday life in the United States and around the world. Economists, business leaders, policy makers, and all concerned citizens need to be familiar with macroeconomics.

Macroeconomics is best understood in a historical context. The book offers an introduction to macroeconomic theory and policy as they relate to events and developments of the past 80 years. The United States economy and its fiscal and monetary policies are the main concerns, but because the United States economy and world economies are intertwined, the stories of their interactions will also be recounted.

Let me emphasize that the book is neither an economic history of the United States nor a history of economic thought. The purpose of this book is to teach macroeconomics in the context of actual events and with emphasis on the relationships between macroeconomic theory and policy.

Students of economics, professional economists, and the interested public are the target audience. The book can be used as the main text or a supplement in advanced undergraduate and beginning graduate courses in macroeconomics. Professional economists may find it a useful reference. The book is not intended for

readers with no background in economics. But anyone who is ready to expend the effort and is not put off by occasional equations could benefit from reading it.

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