

# **IAS 107 Lecture: The Macroeconomic Situation**

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IAS107 Lecture Notes

[http://delong.typepad.com/berkeley\\_econ\\_101b\\_spring/](http://delong.typepad.com/berkeley_econ_101b_spring/)

April 21, 2011

Resolution for screencast capture: 1024x768

# Logistics

- Problem set 9/sample final out...
- Due April 28 at start of class...
- Today: The current macroeconomic situation
- Tuesday: Review of important concepts from the course
- Thursday: Go over sample final

# Problems to Solve

- Growth: production function
- Growth: balanced growth path
- Growth: forecasting
- Depression: NIPA
- Depression: income-expenditure
- Depression: investment-savings
- Depression: real interest rate movements
- Inflation: quantity theory of money
- Inflation: Phillips Curve
- Inflation: MPRF
- Inflation: Expectationally-consistent equilibrium
- Budget: sustainability
- Budget: burden of debt
- Budget: crowding out
- Data: pace of long-term growth
- Data: world real GDP
- Data: spread of world GDP
- Data: unemployment rate
- Data: employment-to-population ratio
- Data: inflation rate
- Data: government spending
- Data: government deficits

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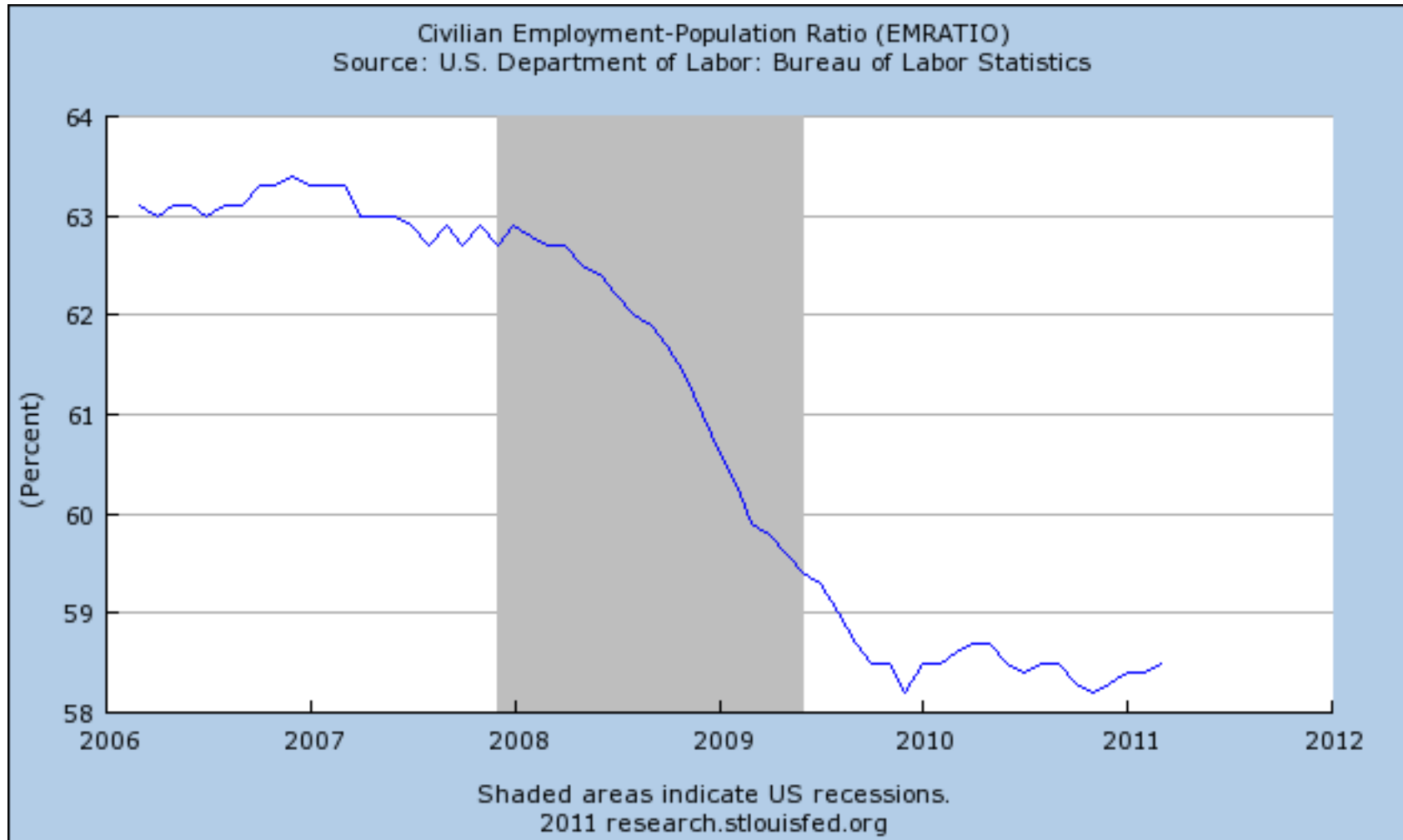
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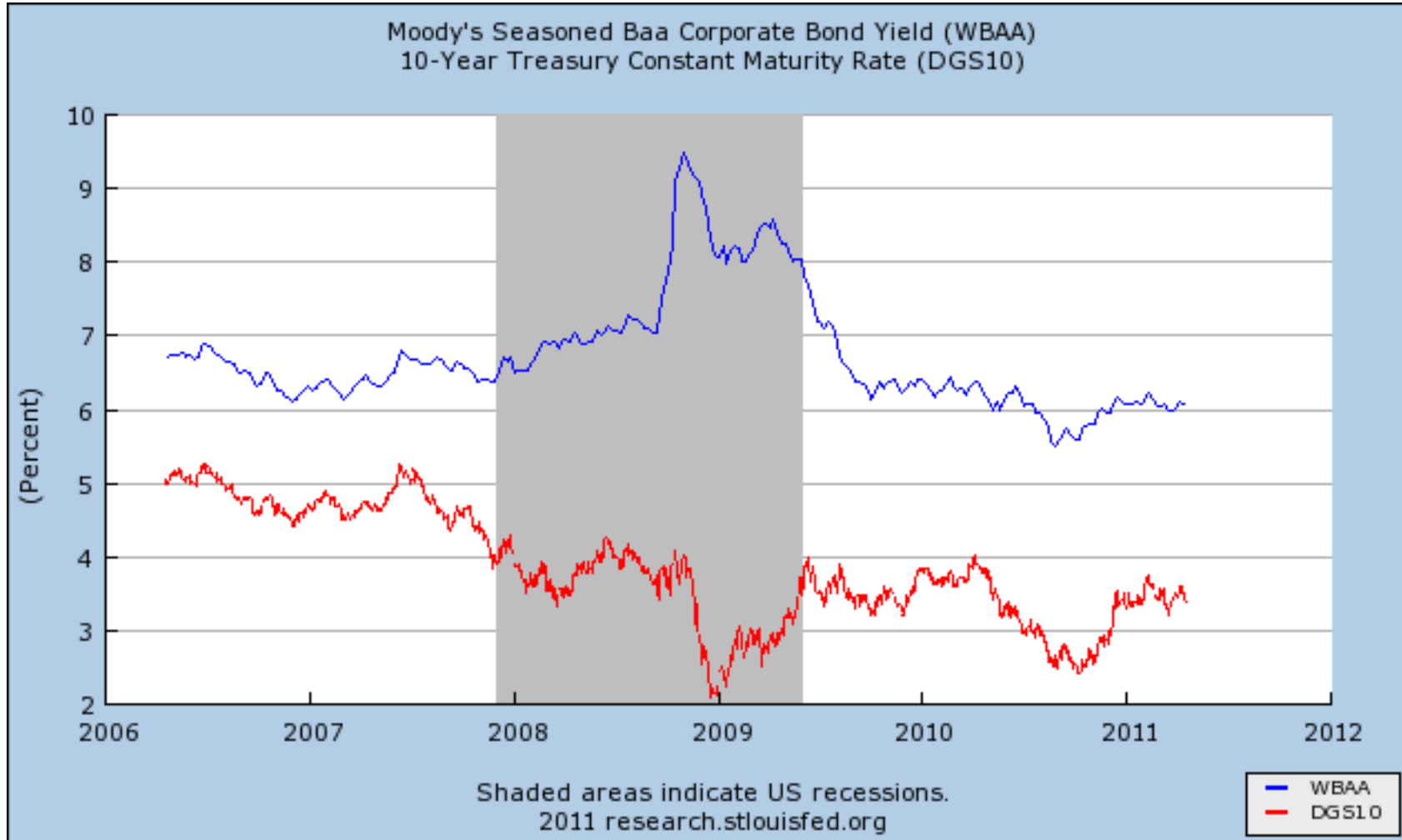
# The United States

- The Obama Plan
  - Cadillac Plan tax, IPAB, evidence-based medicine, exchanges
- The Ryan Plan
  - Repeal ObamaCare
  - “Skin in the game”
  - Cap on government payments
    - Starting in 2022, turn Medicare into ObamaCare which is really RomneyCare
  - Plus \$4 trillion of spending reductions and \$4 trillion of tax cuts over the next decade
- Single-payer
- Backstop catastrophic
- These are the biggest decisions the government is going to make over my and probably your lifetimes

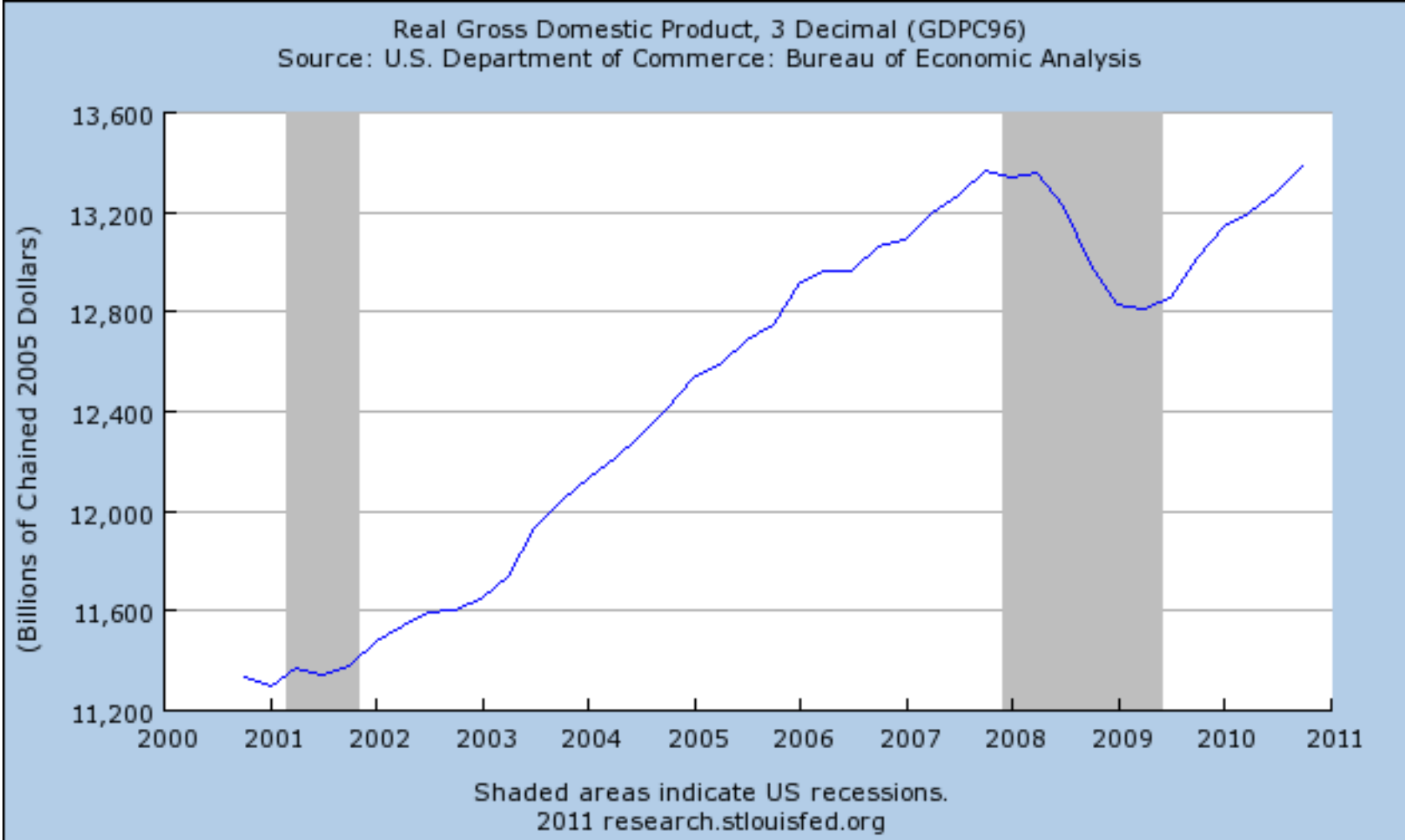
# The Labor Market



# Interest Rates

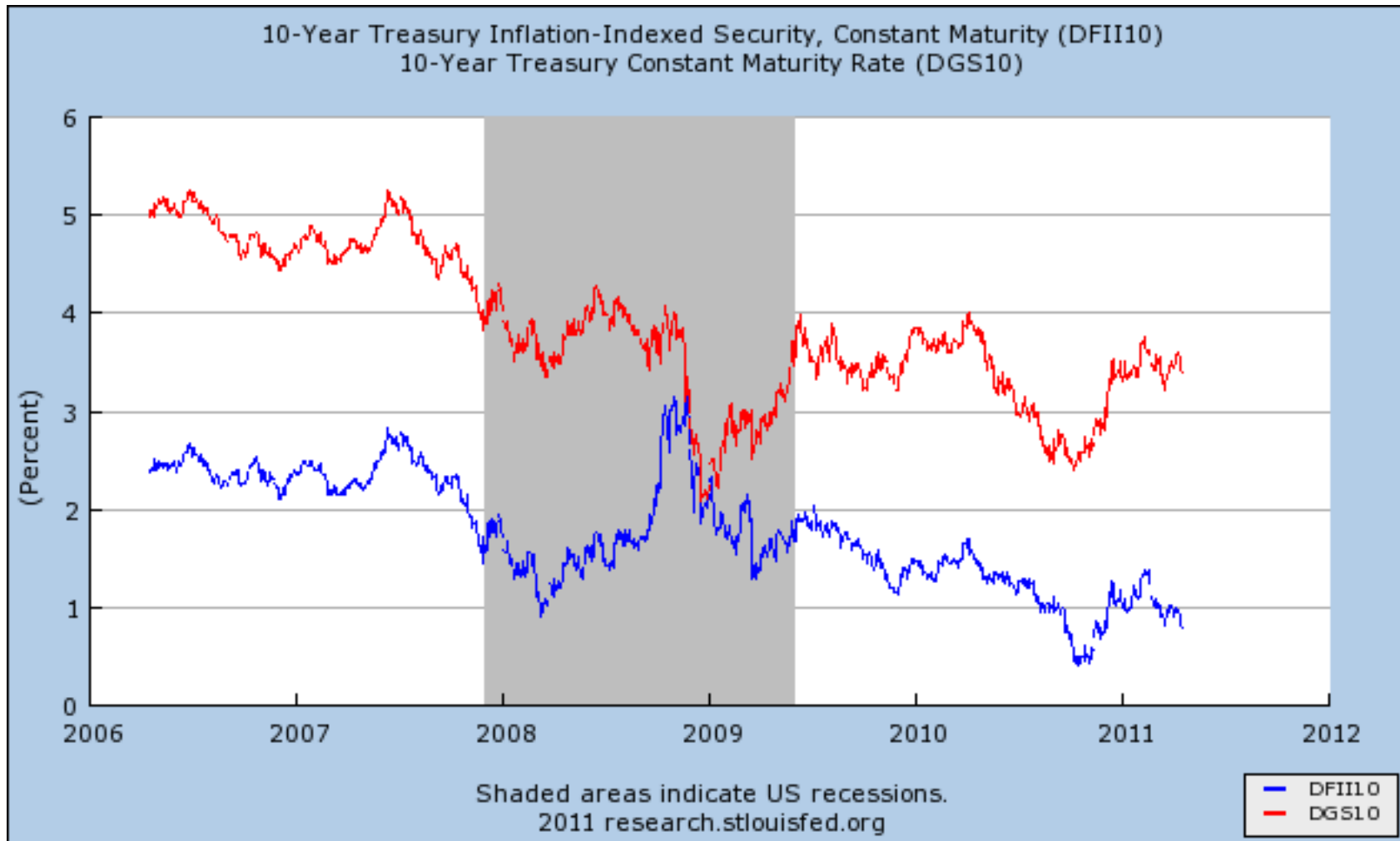


# Real GDP

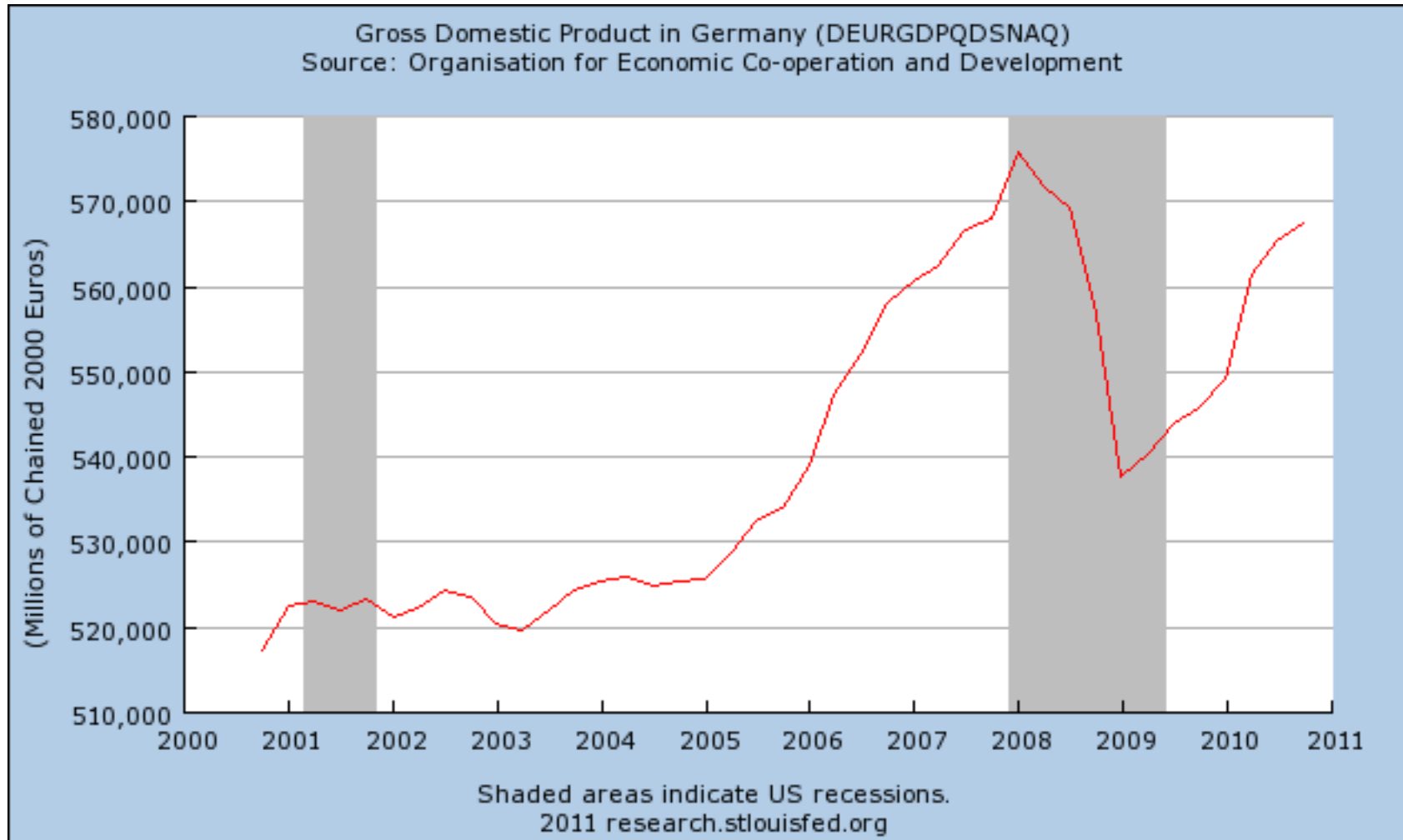




# Inflation Expectations



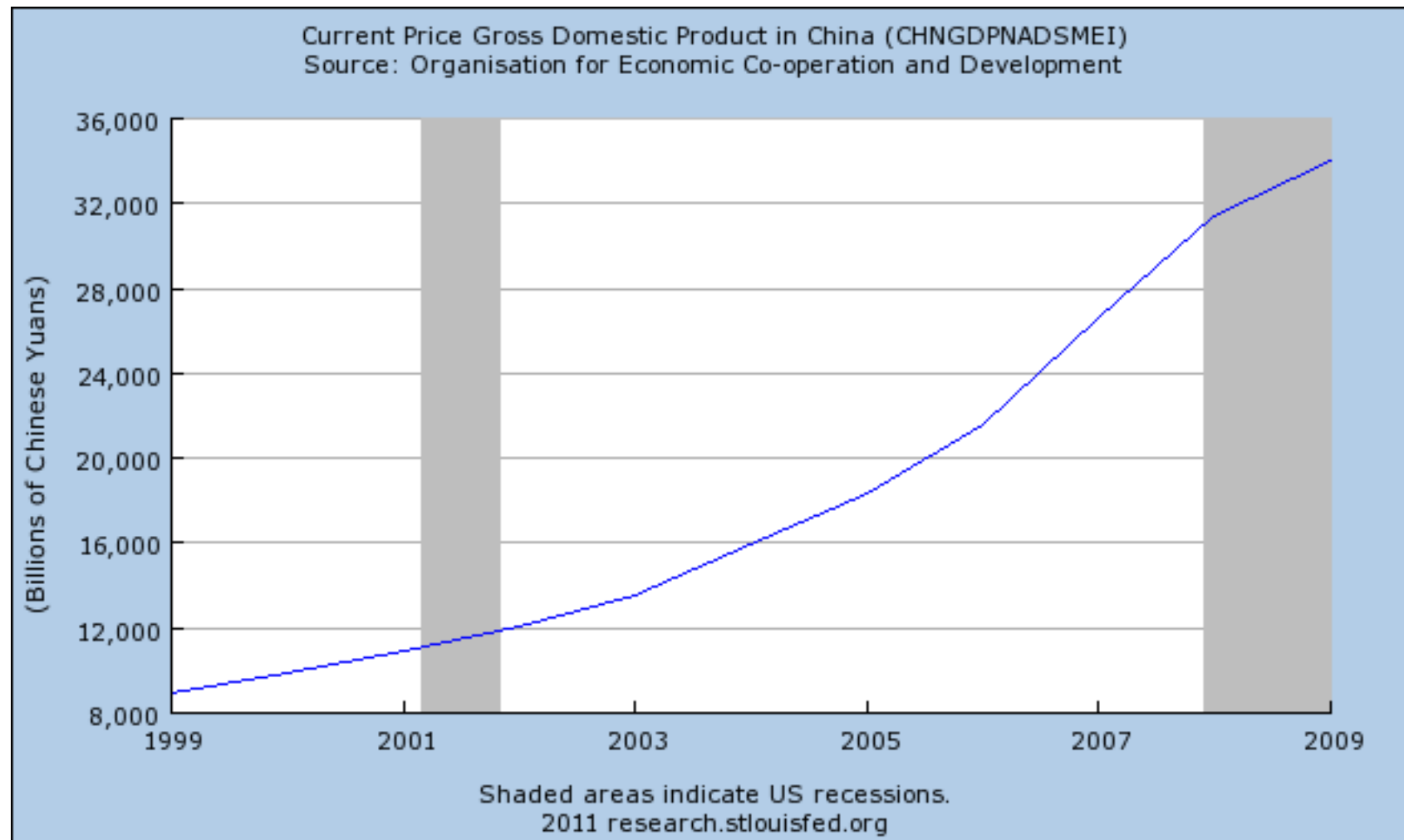
# Real GDP in Germany



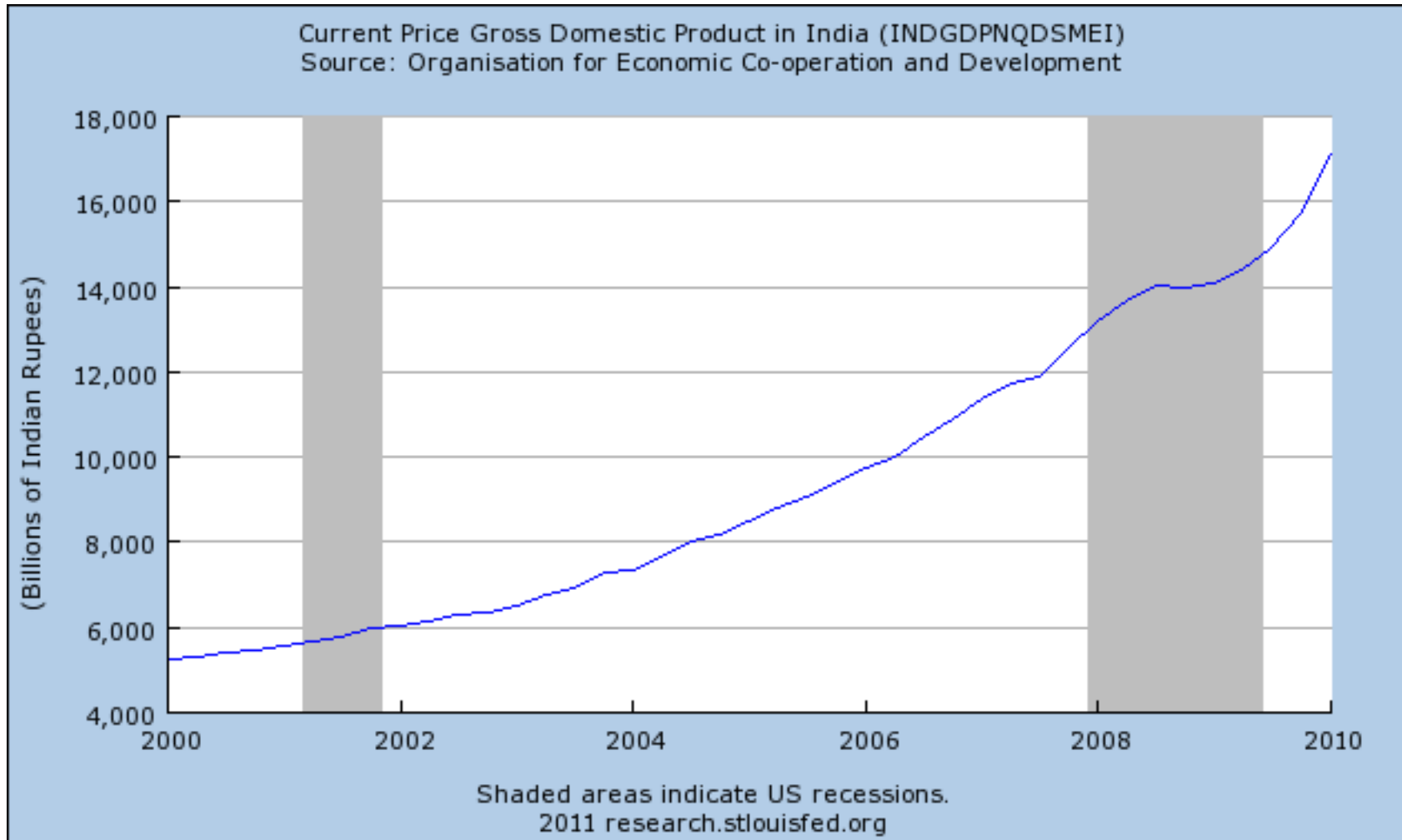
# European Interest Rates

Ten year government bond spreads			
Country 	Latest yield	Spread vs bund	Spread vs T-bonds
 Australia	5.57%	+2.26	+2.16
 Austria	3.74%	+0.42	+0.33
 Belgium	4.34%	+1.03	+0.93
 Canada	3.33%	+0.02	-0.08
 Denmark	3.36%	+0.05	-0.04
 Finland	3.49%	+0.18	+0.09
 France	3.64%	+0.33	+0.23
 Germany	3.31%	—	-0.10
 Greece	14.87%	+11.56	+11.47
 Ireland	—	—	—
 Italy	4.75%	+1.44	+1.35
 Japan	1.23%	-2.08	-2.18
 Netherlands	3.58%	+0.27	+0.17
 New Zealand	5.79%	+2.47	+2.38
 Portugal	9.46%	+6.15	+6.05
 Spain	5.48%	+2.17	+2.07
 Sweden	3.25%	-0.06	-0.16
 Switzerland	2.04%	-1.27	-1.36
 UK	3.58%	+0.27	+0.17
 US	3.41%	+0.10	—

# Emerging Asia



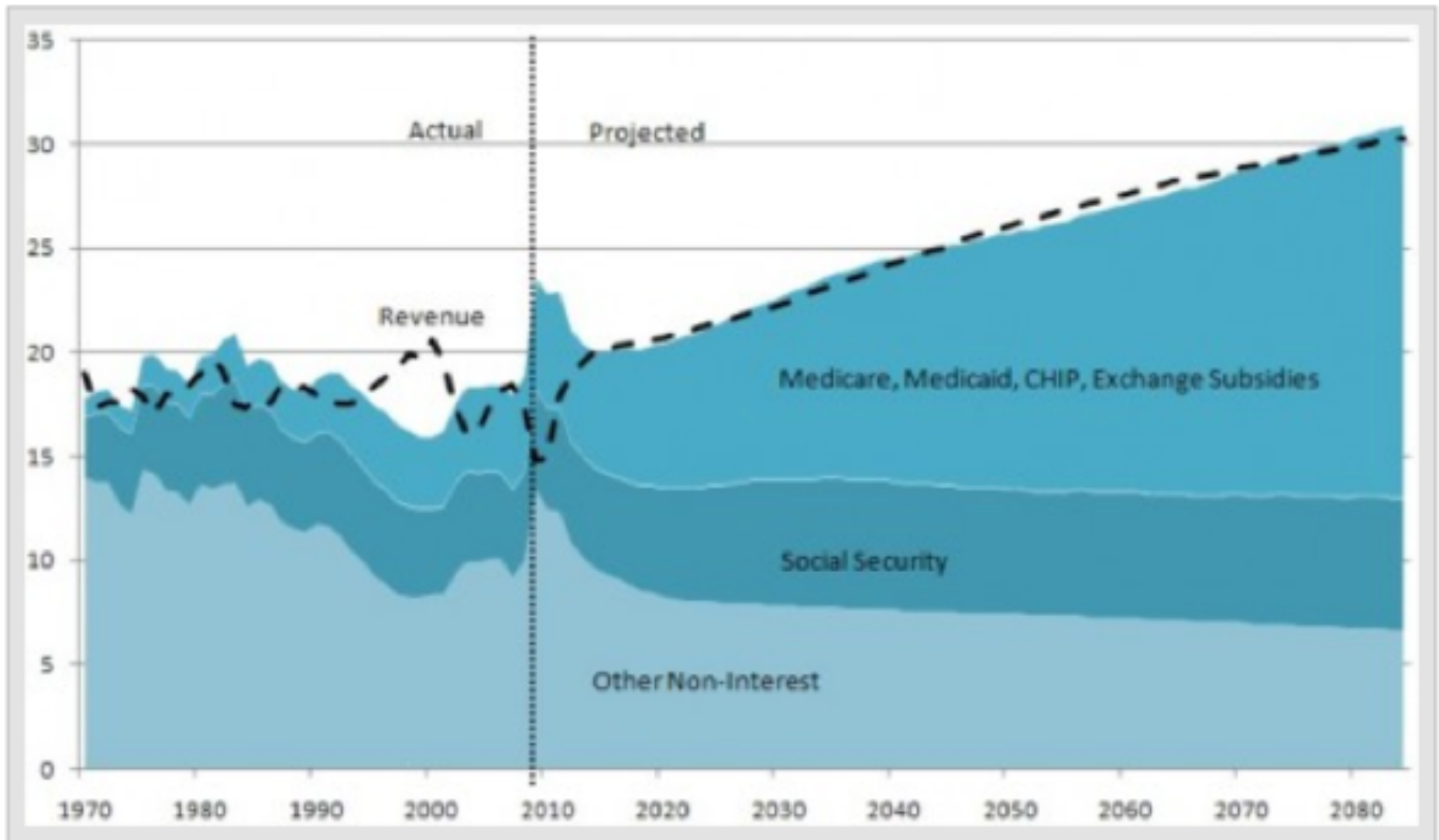
# Emerging Asia



# We Have Left a Lot of the World Out

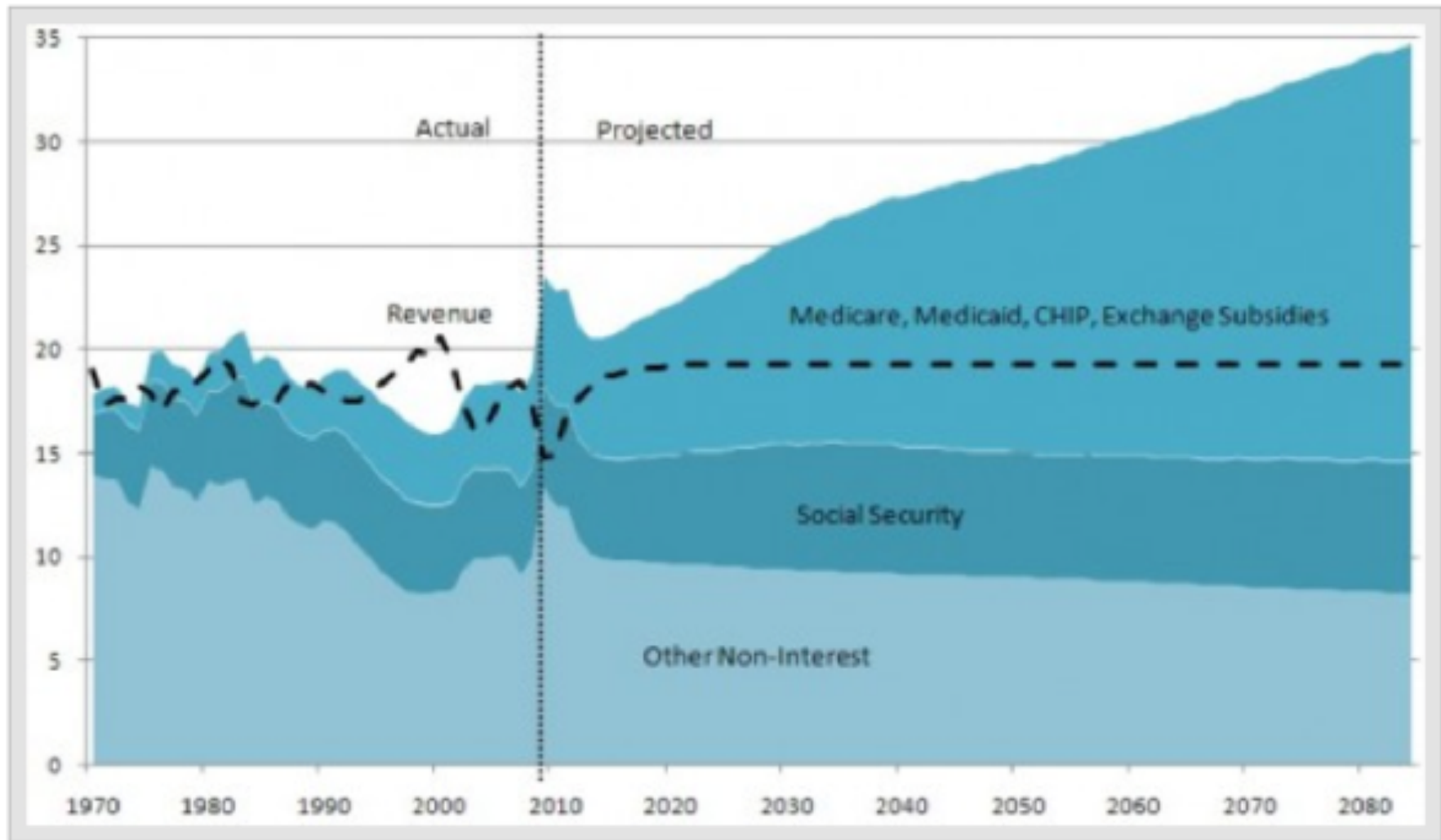
- South Asia
- Latin America
- Middle East
- Africa
- Eastern Europe

# Call This Date 2015. What Will the World Look Like in 2015? “Baseline”



# Call This Date 2015. What Will the World Look Like in 2015?

## “Alternative”

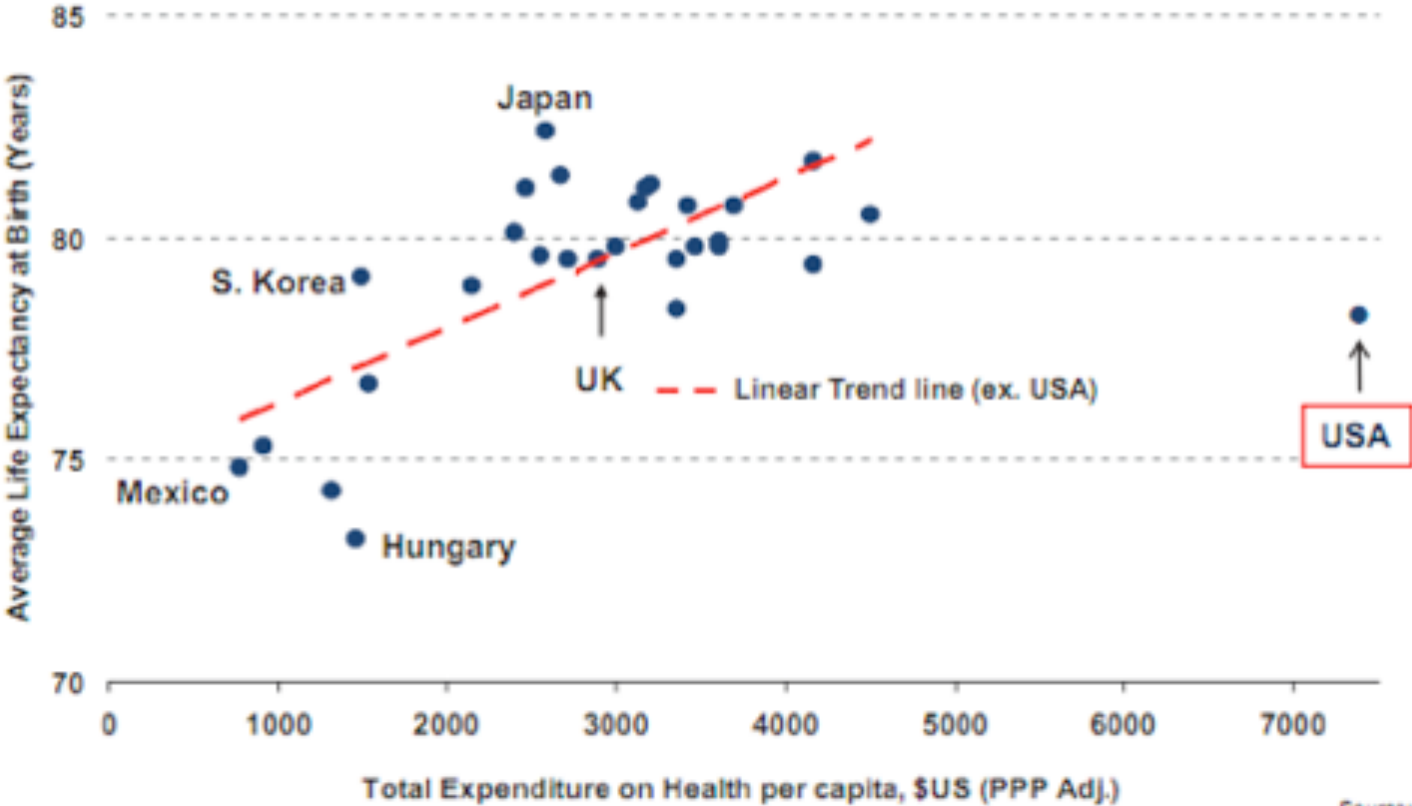




# Medical Care Across Countries

USA Healthcare Outcome (based on Life Expectancy) Have Room For Improvement Relative to Other Countries

Healthcare Spending per capita vs. Average Life Expectancy Among OECD Countries, 2007



# What Is to Be Done?

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# Is There a Compelling Argument for Shrinking Government—or Capping Its Growth?

