Chapter 1 Review

Readings: Mankiw: Chapter 1 all, also "f.y.i" on p 240

Outline

I. What Does Macroeconomics Study?
   A. Macroeconomic variables
   B. Economic Fluctuations
   C. The Changing Composition of the Economy
   D. Economic Growth

II. Why is there Debate in Macro? Different time periods
   A. The short-run (Land of Kenesians)
   B. The long-run (Classical land)
   C. The very long run
   D. Which is the most important?

III. Why is there Debate in Macro?
    The macroeconomy is not a simple thing.

IV. Why Is There Debate in Macro? Data problems
    A. Identity Crises (Lack of data points and too many possible explanatory variables)
       • Degrees of freedom (i.e. identification or statistical testing power)
    B. Multicollinearity, etc.

Problems to Study (not graded)

1. p 14: Questions For Review # 2.


3. p 14: Problems and Applications # 1.
4. _____ Which of the following would be the **hardest** to test using econometrics? i.e.: For which of the following theories would it be hardest to make a definitive statement about whether its right or wrong? Explain your answer.

<table>
<thead>
<tr>
<th>option</th>
<th>what’s being tested</th>
<th>the data available to test the theory</th>
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<tbody>
<tr>
<td>a</td>
<td>a theory that says that large numbers of sunspots cause recessions</td>
<td>150 years of data on the condition of the English economy and the number of sunspots</td>
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<td>b</td>
<td>a theory that says the Great Depression in the U.S. was started by a decline in the U.S. money supply</td>
<td>the fact that the U.S. economy started shrinking in 1929, a decline in the money supply, the stock market crash, a decline in the agricultural sector, falling investment, all in 1929, etc.</td>
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<tr>
<td>c</td>
<td>a theory that says that long-run growth in an economy results primarily from little government interference in the economy</td>
<td>data from 30 countries on their long-run growth, government’s share of the economy, how stable their money supply is, a measure of political stability, per capita value of natural resources, etc.</td>
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<td>d</td>
<td>a theory that says cramming (i.e. studying more than two hours) the night before an exam actually tends to lower one’s grade</td>
<td>a survey of 14,000 students with information on their grades, age, total hours spent studying, attendance, average number of hours spent cramming before each exam. etc.</td>
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5. Of the above options, which would be the **easiest** to test using econometrics? i.e.: For which of the above theories would one be most able to make a definitive statement about whether its right or wrong? Explain your answer.

6. In layman’s terms, explain just what the heck multicollinearity is. Is it something one should see a medical doctor about? Give an example of multicollinearity and how it makes deciphering the macroeconomy difficult.