Conclusion: Where We Stand

• The Reaction of Ideas to Events, 1947-70
  – The Economy in the 1950s
    • Changes in Economic Ideas Through 1960
      • Introduction of the aggregate supply curve
        – Importance of the Phillips curve
    – The Economy in the 1960s
      • The success and failures of fiscal policy
        – Fiscal fine tuning

Conclusion: Where We Stand

• The Reaction of Ideas to Events, 1923-47
  – The Economy’s Behavior in the 1920s and 30s
    • The Great Depression was the defining moment
      – Length was actually more important than severity
  – The Keynesian Revolution
    • The central role of aggregate demand
      – And sticky prices and wages
    – World War II

Figure 18-1
Key Macroeconomic Variables, 1923-47

Figure 18-2
Key Macroeconomic Variables, 1948-69
Conclusion: Where We Stand

• The Reaction of Ideas to Events, 1970-97
  – Economic Behavior, 1971-82
  » Figure 18 - 3
  – Reaction of Ideas to Events
    ◦ New classical macroeconomics
    ◦ Supply side shock analysis of inflation
  – Economic Behavior, 1982-91
    ◦ Monetary policy as the central stabilization tool
      – Real GDP growth rule

• Reaction of Ideas to Events in the World Economy
  – Interactions Between the World and U.S. Economies
  – International Events Spawn Ideas: The Grass is Greener
    ◦ Flexible exchange rates
      – Advocates versus critics

• What We Know About the Six Puzzles
  – Why Has the Unemployment Rate Been So High and So Variable?
  – Why Has the Inflation Rate at Times Been So High and So Variable?
  – Why Has Productivity Grown So Slowly?
  – Why Have Real Interest Rates Been So High?
  – Why Has the Gov’t Budget Deficit Persisted?
  – Why Has the U.S. Trade Deficit Dropped into Persistent Deficit?
Conclusion: Where We Stand

• Macro Mysteries: Unsettled Issues and Debates
  – How Can Productivity Growth be Increased?
  – Should We Go for Zero Inflation?
  – Why Did the Natural Rate of Unemployment Decline?
  – Rules versus Activism
  – The Twin Deficits
  – Differences Among Countries

• Macro Mysteries: Unsettled Issues and Debates (continued)
  – A Final Word
    • While there are many things we do not understand, there are many things that we do