

Macro Module 14 + 15 Readings

(The attached PDF file has better formatting.)

Chapter 11: Inflation, Money Growth, and Interest Rates (Modules 14 and 15)

Read the introduction on pages 191-192. Skim the section on cross-country data on inflation and money growth on pages 192-195. The homework assignment uses the data in Table 11.1. For two decades, economists made the error highlighted in the homework assignment. Milton Friedman put forth the theory in this textbook.

Know well the last bullet point on pages 195, which is tested on the final exam.

Read the section on "Inflation and Interest rates" on pages 195-199. Focus on the differences between actual and expected inflation and between the real and nominal interest rates. Skip the sections on "Measuring Expected Inflation" on page 199, "U.S. Expected Inflation and Interest Rates since World War II," on pages 199-200, and "Indexed Bonds, Real Interest Rates, and Expected Inflation Rates" on pages 200-201.

Know the sub-section "Interest Rates on Money" on page 201-202. The real interest rate on money is the negative of the inflation rate.

Read "Inflation in the Equilibrium Business Cycle Model" on pages 202-207. Focus on key equation 11.10 on page 203, which is repeated throughout the textbook. The rental market and the bond market determine the same item: the real interest rate.

Know the key equation on page 206, which says that the price level is the dependent variable, or the balancing item that equates money supply and the demand for money.

Barro summarizes the conclusions in five bullet points on page 206. These are tested on the final exam.

Read the section "A Shift in the Money Growth Rate" on pages 207-209. Barro shows a discontinuity in the price level. The final exam may test this discontinuity: whether the price level increases, decreases, or stays the same after a shift in the money growth rate.

Read "Government Revenue from Printing Money" on pages 209-210; skip "By the Numbers" on page 211; skip Table 11.3 on page 212. The "By the Numbers" box is fascinating, and it recurs time and again. Venezuela now has hyper-inflation, with similar problems. (The final exam does not test these historical facts.)

Review Question A.1 on page 212. Distinguish between a rise in the price level and a rise in the inflation rate (or nominal interest rate).

Review Question A.5 on page 212. Which affects the value of bonds vs money: the real interest rate or the nominal interest rate?

The homework assignment covers Question B.7 on page 213.

Review Question B.8 on page 213. The text discusses this, and the final exam covers it.

Question B.9 on page 213 is covered in a homework assignment.