

Macro Module 16 + 17 Readings

(The attached PDF file has better formatting.)

Chapter 12: Government Expenditure (Modules 16 and 17)

Skip pages 215-218. These pages show the size of government expenditure in the United States. Skip Figures 12.1 to 12.4 on pages 216-217 and Table 12.1 on page 218. The final exam does not test the historical facts.

Read pages 219-222. Know Equation 12.1 on page 219 (the government budget constraint), and focus on equation 12.4 on page 221, which adds government transfers and taxes to the household budget constraint.

The macroeconomic model assumes that people anticipate future transfers and taxes. Key equation 12.6 at the bottom of page 21 is a multi-year version, with present values.

Read pages 222-224. The conclusions in italics at end of the paragraphs show that a permanent change in government expenditures has little or no effect on GDP.

Read "Extending the Model" on pages 224-225; focus on the last paragraph on page 225. The final exam does not test the derivation (Equation 12.10), but it tests the conclusion.

Read pages 225-229, which has different results for temporary changes in government expenditures. It is hard to test this result in peace-time, since even temporary government programs are renewed each year and may never end. Barro uses wartime expenditures to test the model, but even war expenditures seem to drag on year after year. Vietnam lasted decades. Afghanistan and Iraq were short expeditions that continued for years.

You might find "Extending the Model" on page 229 to be interesting, which suggest that government spending patterns affect the term structure of interest rates. This is Barro's idea; financial theory does not assume that government spending affects the term structure. No final exam problems are asked on this box.

Skim pages 229-232. Barro's model predicts the effects of wars on the labor supply, the real wage rate, and the interest rate. The facts don't fit the simple model. Barro suggests various reasons for the discrepancy. This is speculation; the final exam does not test it. The exam problems focus on accepted macroeconomic theory. Many non-standard ideas in the textbook are excellent, but they are not required for the on-line course.

Review Question B.3.a on page 233. Review the discussion of National Income Accounting in the first module of this course.

Review Question B.7.a on page 234. The homework assignment asks how the usefulness of government services varies among groups of citizens (wealthy vs poor).