

# GOALS AND POLICIES FOR THE ECONOMY

by

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## PREFACE

This booklet is designed to be used alongside a standard textbook in a college introductory macroeconomics course. It provides charts and graphs on the current economic situation and a description of the policy options considered by decision makers.

The graphs and charts are organized in a manner which is convenient for policy discussions. First the goals of macroeconomic policy are considered. Then the policies which are used in attempting to reach these goals are discussed. Finally, the relationships between the policies and the goals are described. For example, two of the central goals of macroeconomic policy are low rates of unemployment and inflation. Two of the policies which are used to attain these goals are management of government expenditure levels and the money supply. The relationship between the policies and the goals involve changes in consumption, interest rates, and investment. Thus this book provides charts and graphs to show recent levels of these variables as well as many others. The book describes how the goals were reached or not reached in previous presidential administrations and discusses the policies that were used in attempting to reach the goals.

The emphasis here is on empirical macroeconomics and on the political and economic events which surround policy decisions. Since most textbooks are revised only once each two or three years and have relatively long publication lags, it is difficult for the authors to provide recent economic data. This booklet is intended to fill that gap and thus to make current information available to introductory economics students.

Another emphasis of the book is on the timing of economic policy. Timing matters in economic policy and the President who overlooks this fact can cause the economy to perform poorly. There are substantial lags between the time that presidential advisers first alert the President to economic difficulties and the time that new policy measures are formulated, passed by the Congress, and put into effect. This booklet focuses on these lags and the key role they play in the determination of whether policies are effective or ineffective.

In order to elucidate fully the role of dynamics it is useful to use difference equations. The experience of this author is that college freshman have enough mathematical sophistication to master this kind of material and to make effective use of it, so difference equations are used slowly at first and then more fully as the student gains familiarity with the notation.

I am grateful to Stuart Glosser and Dan Dabney who used these materials in their freshman classes on a trial basis and to Walt Rostow and Ray Marshall for their comments on earlier drafts of parts of these materials. I am also grateful to Soon Yong Choi, Sherwood Bishop, Veronica Ruiz de Castilla, Kimberley Jordan and Ted Mentele for their help in updating the graphs.

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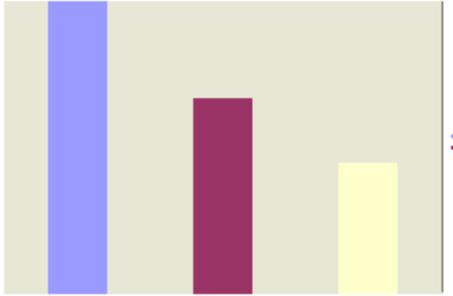
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## **Introduction**

The enjoyment of studying introductory macroeconomics is greatly enriched by an awareness of the current economic situation and policy debates. However, the long lags associated with the revision and publication of the standard textbooks prevents these books from containing recent information. This booklet is designed to provide this current information. It is issued periodically and contains charts and graphs depicting the current economic situation along with descriptions of policy choices which are being debated. This is done within a framework of (1) goals for the economy, (2) policies which can be used to reach these goals, and (3) relationships between the policies and the goals.

Moreover, the framework includes information about the political environment in which major economic decisions are made. Finally, the framework focuses on the timing of policy decisions and the economic affects of the policies. Policies cannot be developed or implemented immediately when an economic problem occurs nor are the behavioral responses within the economy immediate once the policies are initiated. Therefore this book focuses on the time that elapses between (1) problem recognition, (2) policy choice by the President, Congress, and the Federal Reserve Board, and (3) effects of the policy once it is implemented.

The book is divided into three parts. The first part describes goals in various aspects of the economy, i.e. unemployment, inflation, balance of payments, growth, income distribution and the government deficit. The second part analyzes the policy tools which can be used to reach the goals. These are government expenditure, taxes, the money supply, wage and price controls, and foreign trade policies. The relationships between the policies and the goals are outlined in the third part of the book with discussions of consumption, investment, interest rates, prices, wages, imports, and exports. The book culminates in a chapter that brings the goals, policies, and relationships together in a single model of the economy.



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