

Macroeconomics deals with the core problems of unemployment, inflation and economic growth. This book differs in four important respects from the typical text. First, while the major textbooks stress unemployment and inflation, this one puts the greatest stress on economic growth. It is now well known that growth is a consequence of the interaction of two general interacting factors: the institutions of the market economy and individual initiative. This initiative results most importantly in people producing and employing human capital. It also results in entrepreneurial coordination of human capital and other resources. The entrepreneurs coordinate within distinct economic organizations and through markets by receiving and responding to price signals. More than half of the book is devoted to showing how individuals under market economy conditions take the initiative to act in ways that lead to growth. The last two chapters on the history and benefits of freer international trade extend the demonstration from a closed national economy to a global one.

Second, the book treats all macroeconomic issues – including unemployment and inflation – from what most economists would call a general equilibrium perspective. It differs from more advanced general equilibrium analysis, however, both in terminology and orientation. Regarding terminology, it uses the term “completely coordinated” instead of “general equilibrium” in order to prepare students to understand the monetary business cycle. Regarding orientation, its aim is to elaborate the errors that are likely to be made during a monetary business cycle. Such a cycle is caused by a change in the quantity of money. The contraction phase of the cycle is a period of adjustment that is needed because of the errors in judgment made during the expansion phase.

Third, it takes an historical approach to macroeconomic policy. This aspect of the text may be the most controversial. Like practically all writers on the subject, I orient the subject of macroeconomics around the policies that were adopted out of the fear of a new Great Depression. Like many writers, I also regard the Keynesian episode of the 1960s as a dark passage in economic policy making, monetarism as an enlightening criticism, and supply-side economics as the basis for a set of corrective policies. More controversially, I regard inflation targeting, which is probably the best that can be done by means of economic policy in a democracy, as having significantly altered the rationale for teaching about macroeconomic policy. We know today that if a government engages in irresponsible spending, taxing, and monetary policies, it will not grow as fast, other things equal, and that it is likely to be characterized by periodic high unemployment and inflation. No special knowledge of economics is necessary to know this. One only has to be aware of how different nations which followed different policies have developed at different rates. Given this knowledge, the question arises of why economists had to learn this from experience and, correspondingly, why it was not contained in the dominant economic theories of the period that preceded inflation targeting.

This book takes no position on this question. However, it assumes that a modern textbook has a good reason to tell even introductory students something about the views of economists before inflation targeting became so widely accepted. The historical approach takes two different courses. On the one hand, students are taught about money, inflation and the monetary business cycle. The business cycle attempts to incorporate more recent ideas on the money illusion and time. On the other hand, students are taught about the Keynesian episode, monetarism and supply side economics.

Fourth, this book disregards macroeconomic model-building and, in large measure, the national income accounts, which help to generate data for the econometric models. These

subjects are regarded as too advanced for introductory students. Economics stems from a desire to explain how utilitarian goals have been achieved in the past and how they can be better achieved in the future. The relationship between the achievement of such goals, the national income accounts, and modeling based on such accounts is sufficiently obscure to warrant its omission at an introductory level.