



Introduction to Macroeconomics

Workshop for Staff of
Ministry of National Planning and Economic Development
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Outline

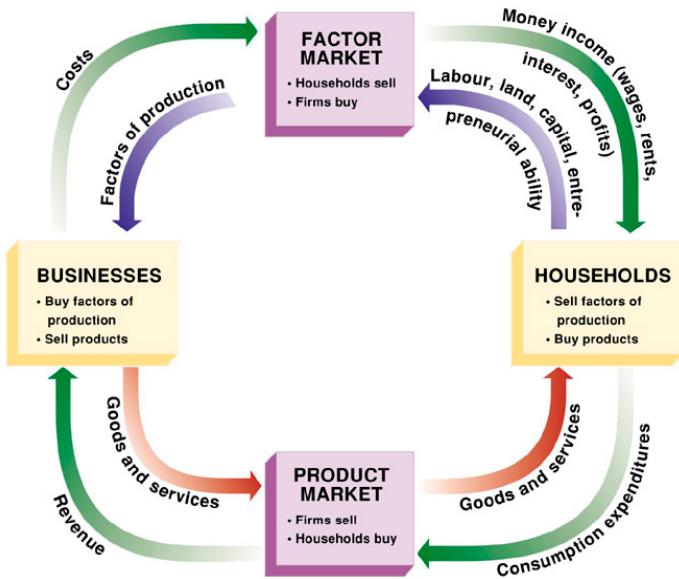
- I. Defining Macroeconomics**
- II. Long-Run Economic Growth**
- III. Economic Fluctuations**
- IV. Macroeconomic Policy Objectives**

Defining Macroeconomics

Macroeconomics takes a top-down view:

It's about economy-wide aggregates such as

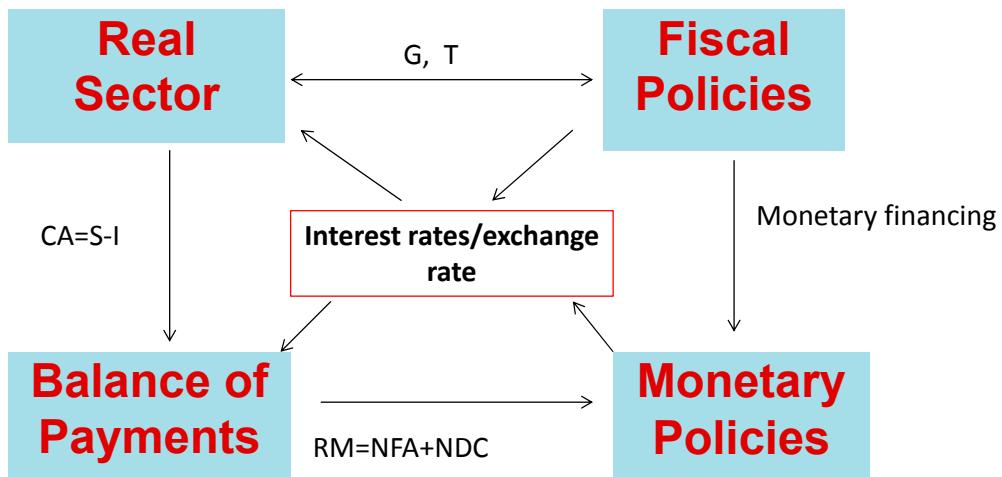
- GDP
- CPI
- Fiscal budgets
- Credit growth
- Current account



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Defining Macroeconomics

The Main Macroeconomic Sectors



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Defining Macroeconomics

Practical applications:

- Macroeconomic management:
 - ✓ Avoid crisis!
 - ✓ Support economic growth
 - ✓ Keep inflation moderately low
- Economic forecasting:
 - ✓ Macroeconomic forecasts are an input into macroeconomic management
 - ✓ But they are also of interest to businesses, financial markets etc.

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Defining Macroeconomics

Two main issues:

- Determinants of long-run economic growth
 - ✓ Last 200 years were very successful
 - ✓ But progress can be uneven (e.g., see Myanmar and Thailand)
- Sources of economic fluctuations:
 - ✓ Business cycles
 - ✓ Economic crises

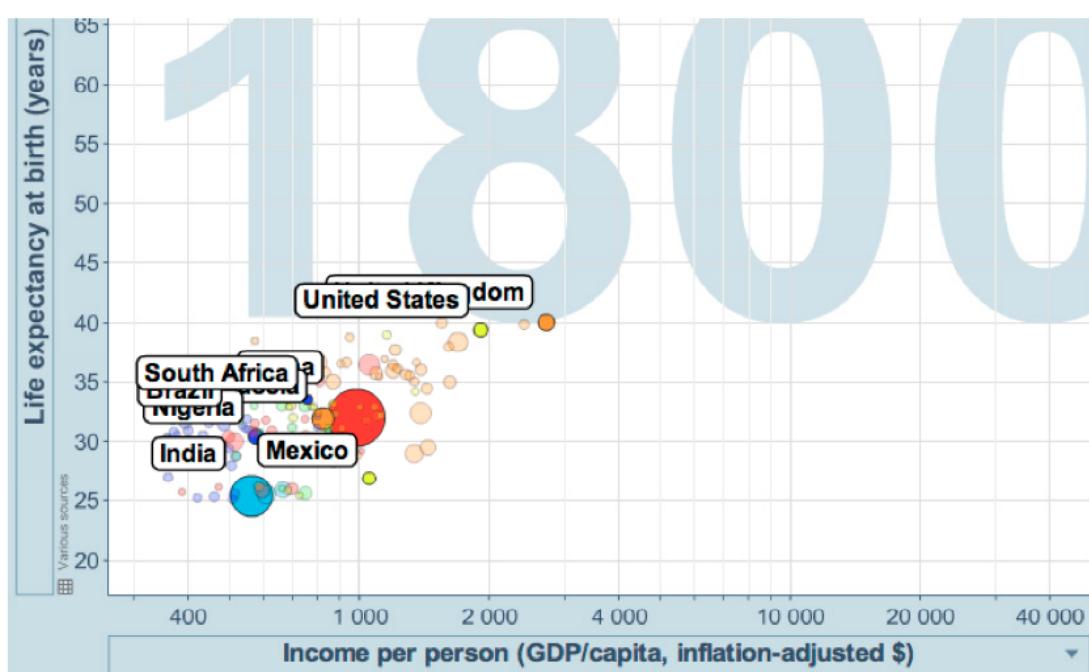
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Outline

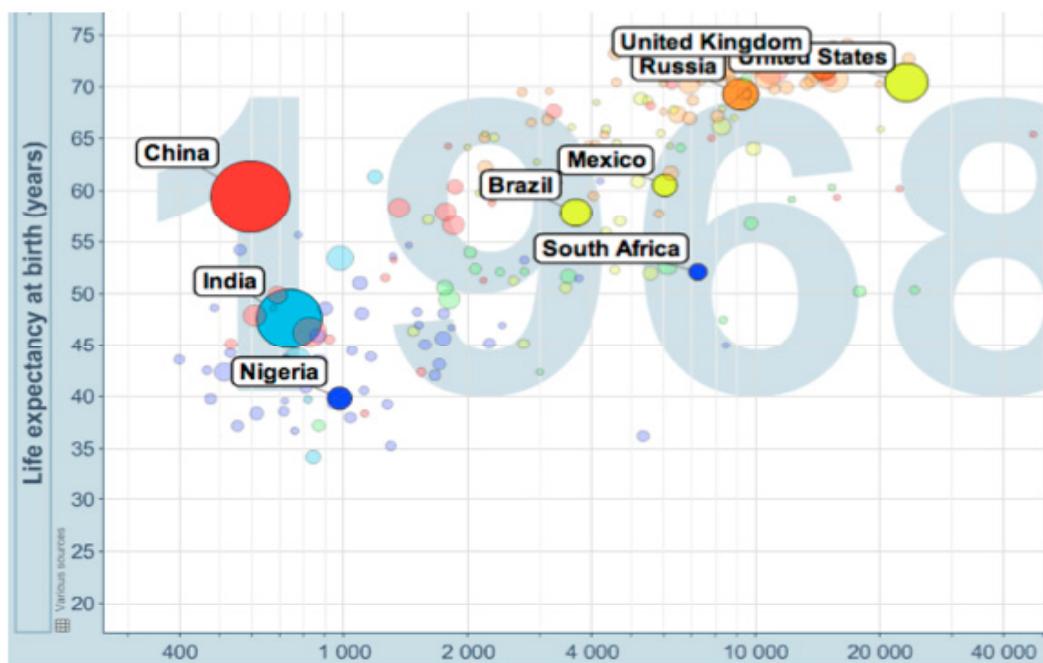
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Long-Run Economic Growth: The World in 1800



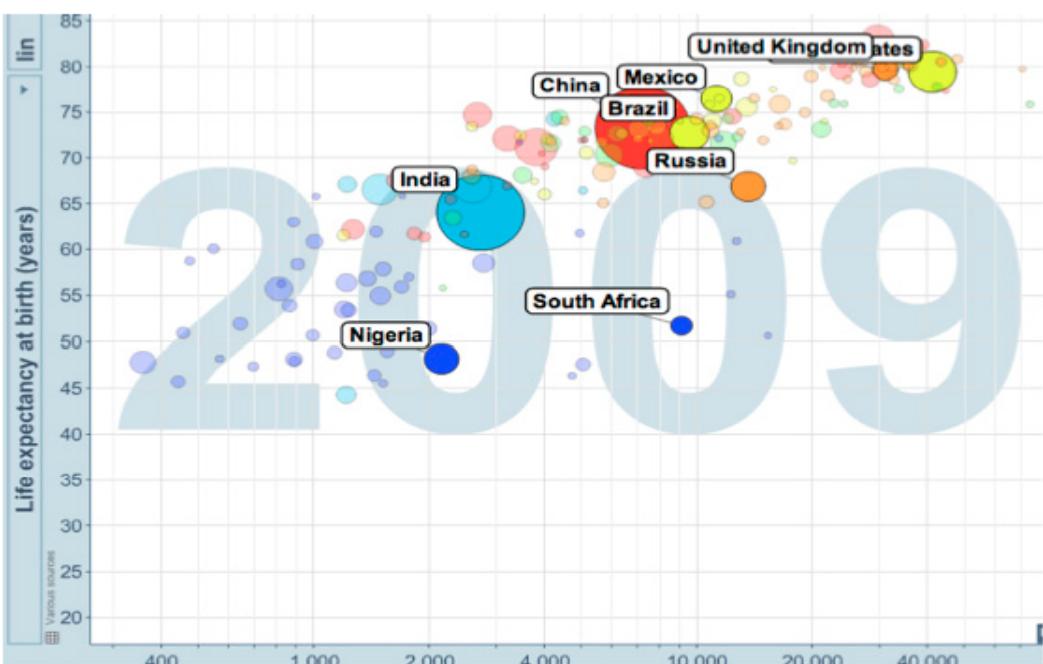
Long-Run Economic Growth: The Great Divergence to 1968



Source: Brad DeLong: Econ 2, Spring 2014, Long-run economic growth

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Long-Run Economic Growth: Convergence Post-1968?

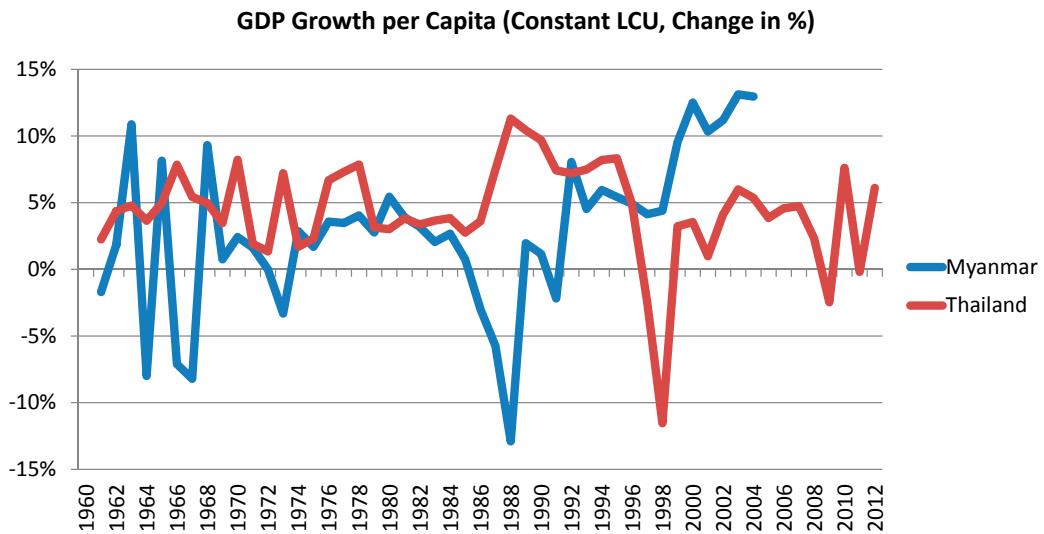


Source: Brad DeLong: Econ 2, Spring 2014, Long-run economic growth

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Economic Growth in Myanmar & Thailand

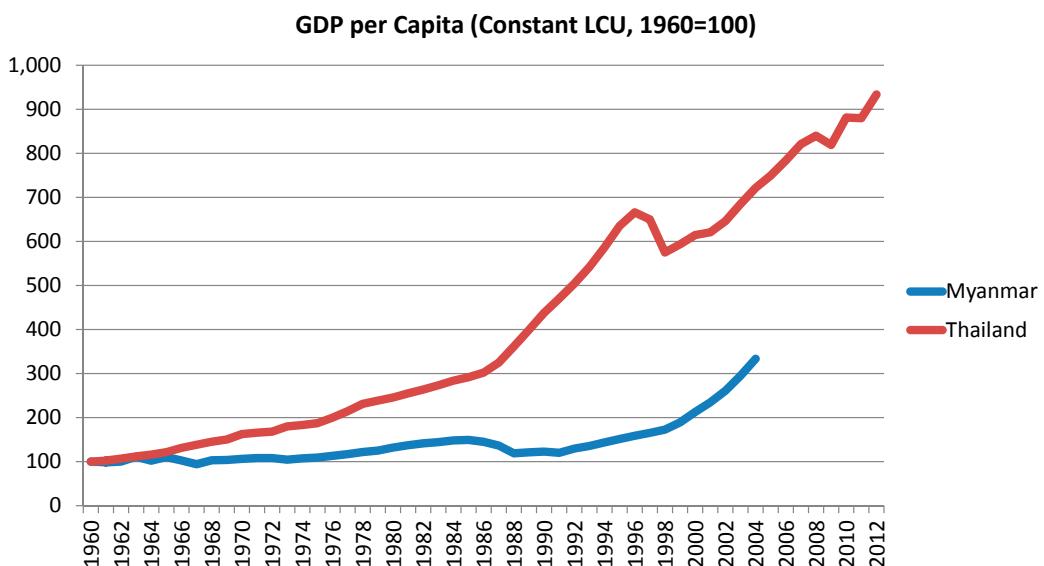
Marked differences in long-run GDP growth performance in Myanmar and Thailand:



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Economic Growth in Myanmar & Thailand

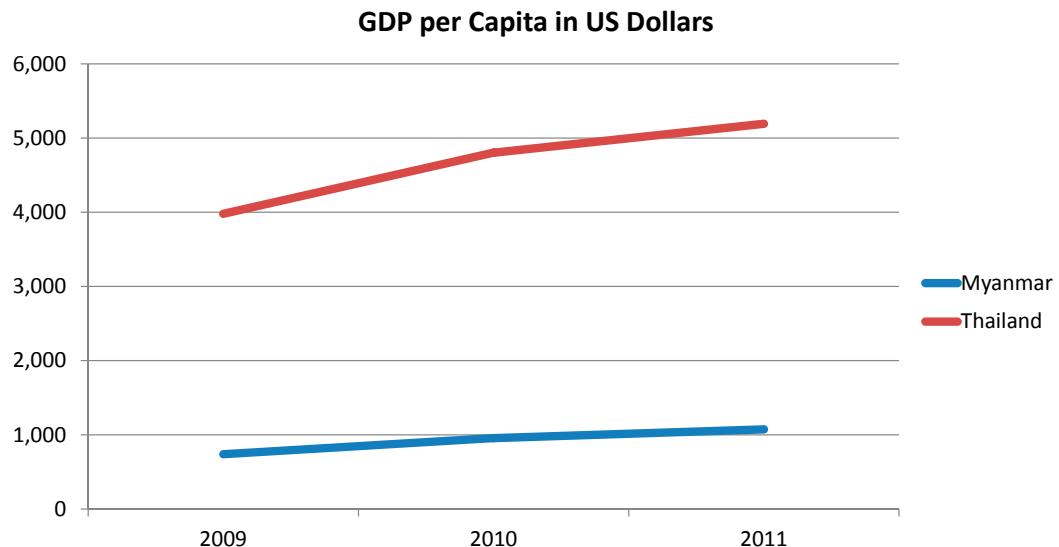
Both countries experienced large rise in income levels:



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Economic Growth in Myanmar & Thailand

... but also sizeable divergence in income levels:



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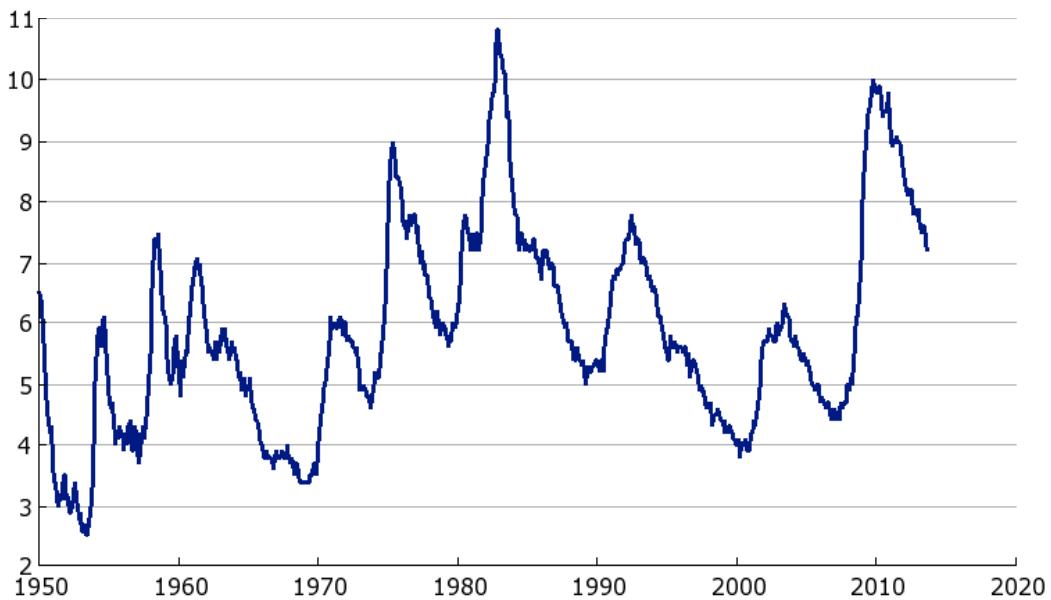
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Economic Fluctuations: Business Cycles

Unemployment in the United States



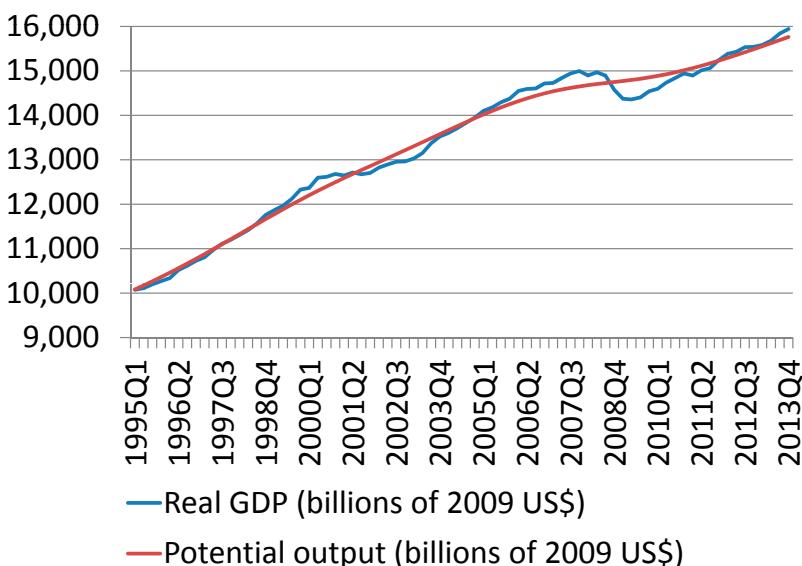
Source: Brad DeLong: Econ 2, Spring 2014, Budgeting & Macro Policy

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Economic Fluctuations: Business Cycles

Output fluctuations: potential GDP & output gap

- Clear evidence for regular economic fluctuations → business cycle
- Attributed fluctuations in aggregate demand
- But does it matter for Myanmar?



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Economic Fluctuations: Economic Crises

Economic crises have a major economic impact

- Sharp drop in output level (deep recession)
- Large loss in currency value (currency crisis)
- High inflation (often in the wake of a currency crisis)
- Banking/financial sector crisis
- Large drop in asset prices

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Economic Fluctuations: Economic Crises

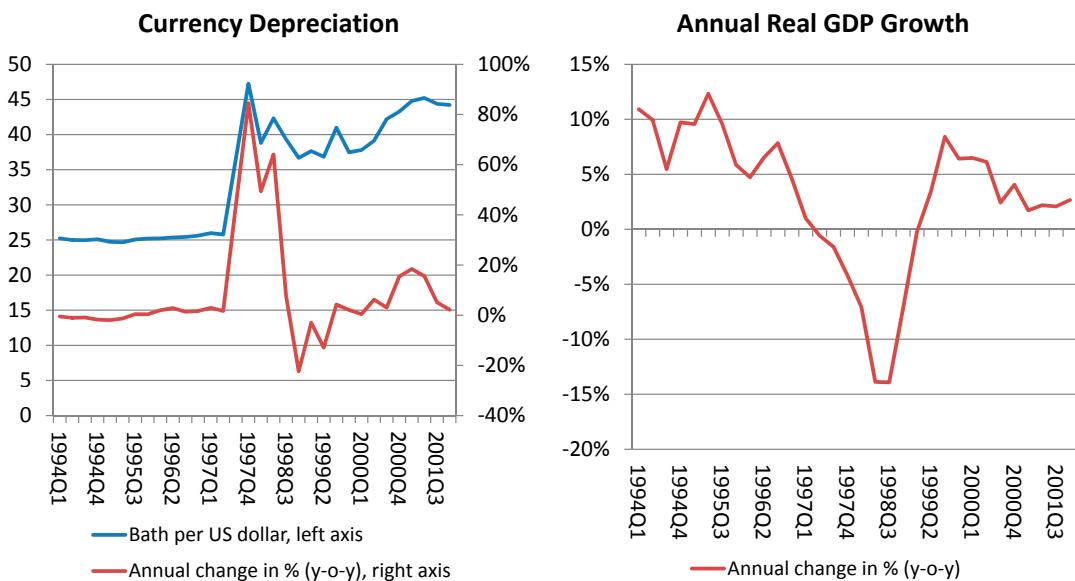
Risk of economic crises cannot be ignored

- Sizeable number of economic crises occurred in past twenty years
- Historically, economic crises are not rare
- Causes vary: sometimes it is unsustainable fiscal policies, often the vagaries of capital flows
- Opening up of Myanmar's economy brings many benefits but also risks

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Economic Fluctuations: Economic Crises

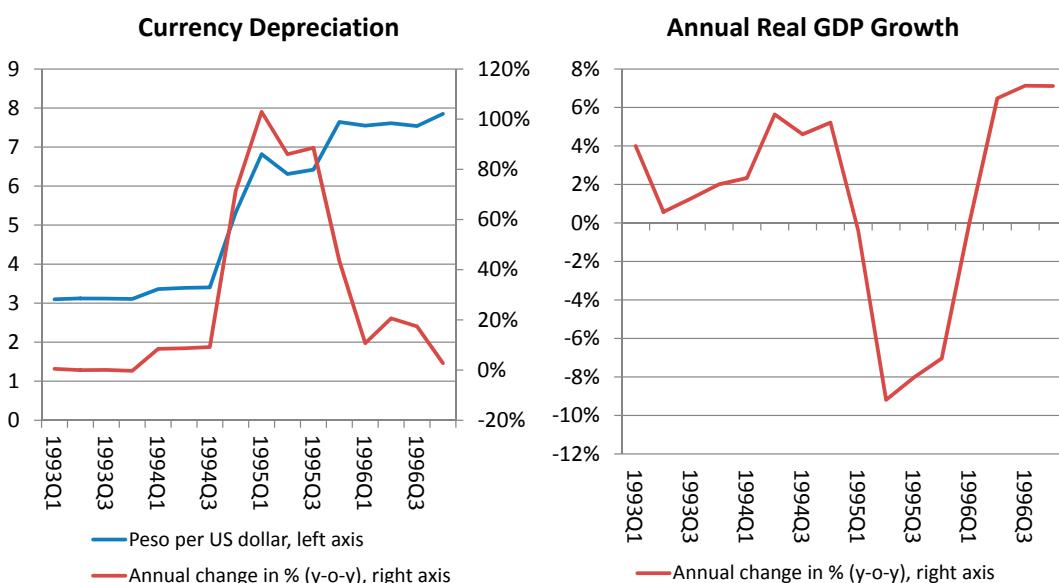
Selected examples: Thailand (Asian Crisis, 1997-98)



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Economic Fluctuations: Economic Crises

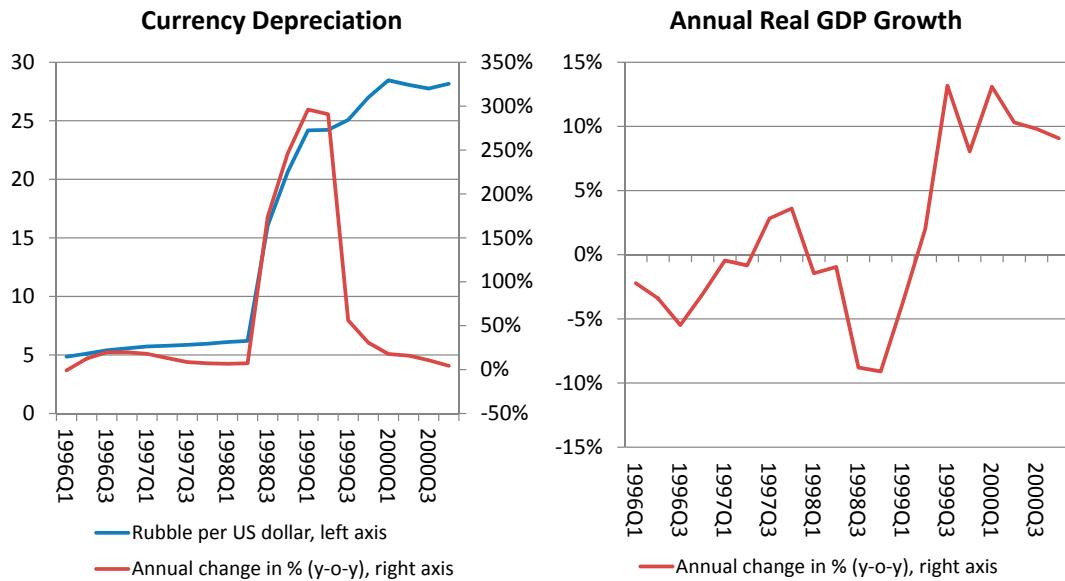
Selected examples: Mexico (1994-95)



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Economic Fluctuations: Economic Crises

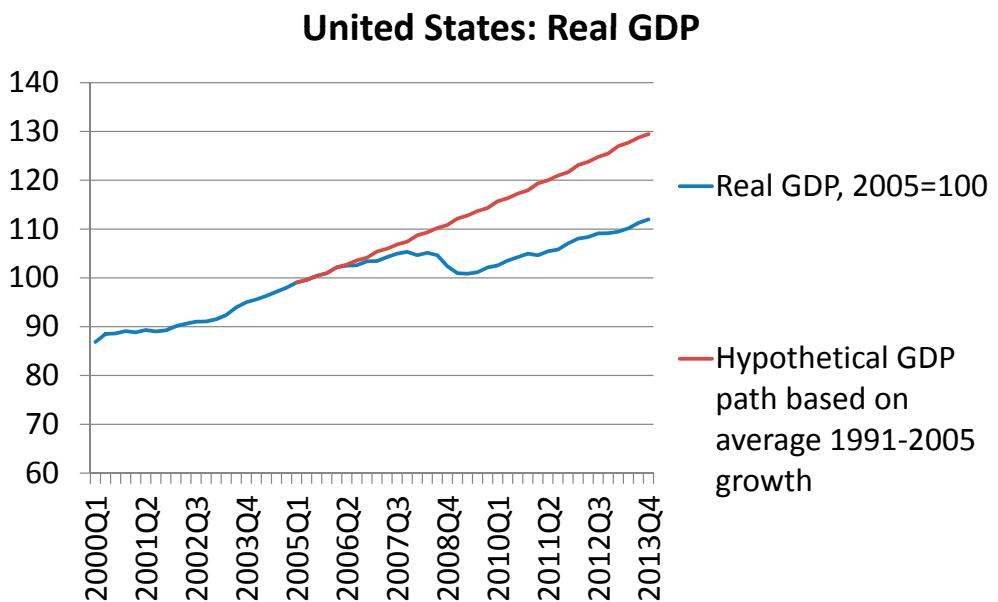
Selected examples: Russia (1998-99)



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Economic Fluctuations: Economic Crises

Selected examples: Global Financial Crisis—U.S.A.

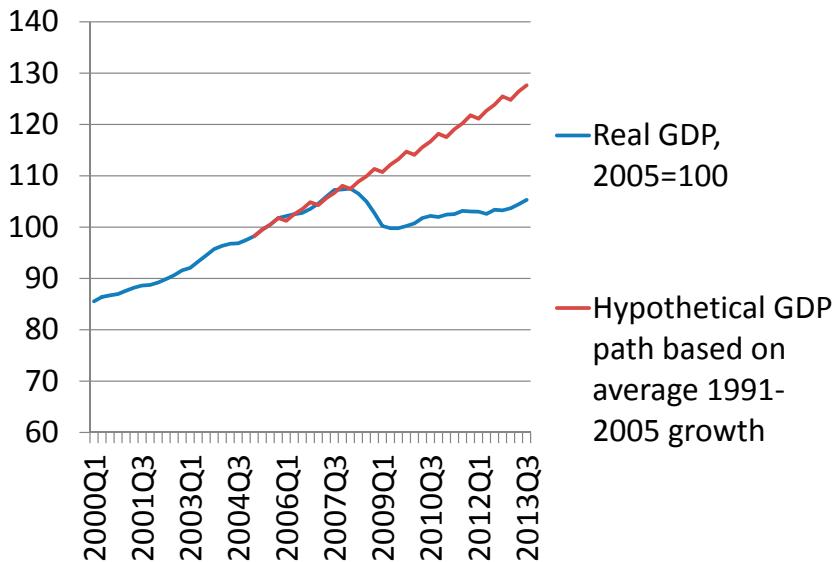


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Economic Fluctuations: Economic Crises

Selected examples: Global Financial Crisis—UK

United Kingdom: Real GDP

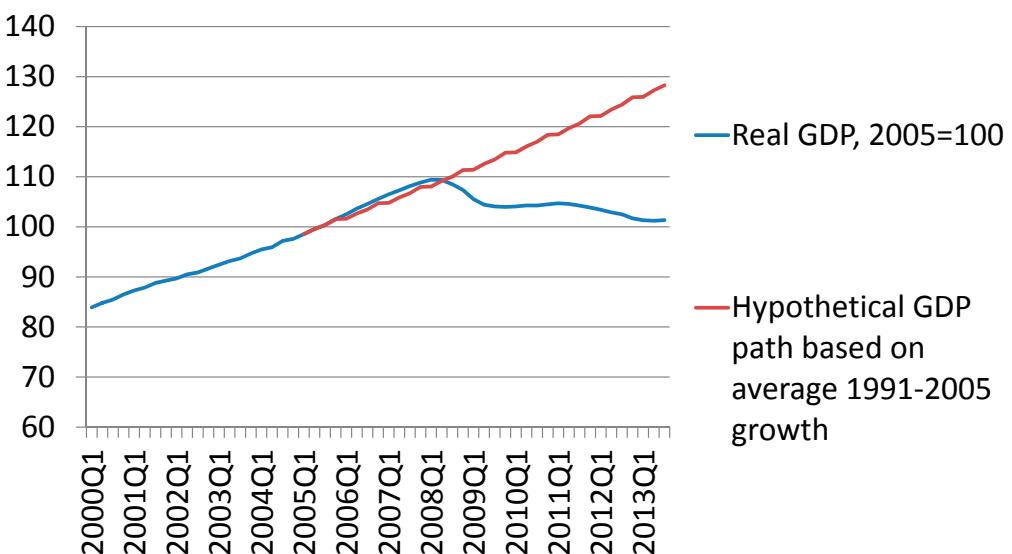


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Economic Fluctuations: Economic Crises

Selected examples: Global Financial Crisis—Spain

Spain: Real GDP



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Objectives of Macroeconomic Policies

General objectives of fiscal and monetary policies

- Promote sustainable economic growth and development
- High employment
- Macroeconomic stability

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Objectives of Macroeconomic Policies

Maintaining macroeconomic stability



- *“The macroeconomic framework can be described as stable when inflation is low and predictable, real interest rates are appropriate, fiscal policy is stable and sustainable, the real exchange rate is competitive and predictable, and the BOP situation is perceived as viable.” Fischer (1993)*

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Objectives of Macroeconomic Policies

Internal and external stability

At a broader level, it's about internal and external stability ...



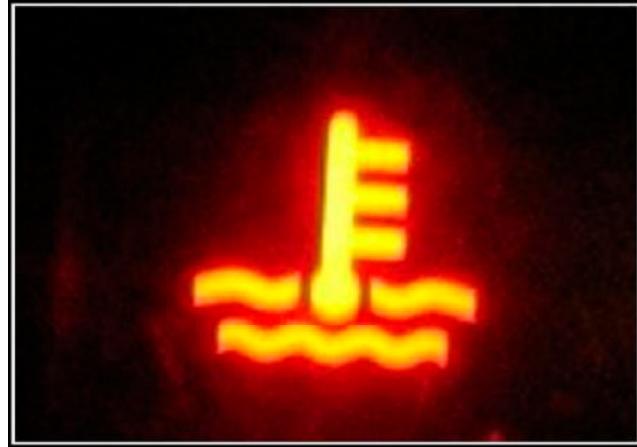
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Objectives of Macroeconomic Policies

Internal stability

Avoiding overheating of the economy!

- Demand \approx Supply
- Output is close to potential
- Inflation pressures are moderate



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Objectives of Macroeconomic Policies

External stability

Avoiding large, sudden foreign exchange outflows!

- Current account roughly in balance
- Or current account deficits can be sustainably financed



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Outlook

We will explore these issues in more detail by ...

- ... taking a closer look at the individual macroeconomic sectors (real, fiscal, external, monetary)
- ... discussing policymaking and its implementation (monetary and treasury operations)
- ... reviewing economic developments and outlook in Myanmar