

# Markets and macroeconomics

MPA 612: Public Management Economics

February 28, 2018

*Fill out your reading report on Learning Suite!*



Current events

# Plan for today

Competition in a price-taking world

What is macroeconomics?

What is money?

Monetary and fiscal policy

# Competition in a price-taking world

Messing with capitalism and competition to be  
more capitalistic and competitive



## Price-making firm

Sets  $P$  and  $Q$  to maximize  $\pi$

$$MC < P$$

Deadweight loss

Advertising and marketing

Lobbying to influence politics

Research, innovation,  
prevention of copying

## Price-taking firm

Sets  $Q$  to maximize  $\pi$ , given  $P$

$$MC = P$$

Pareto efficient

Little advertising (public good)

Little lobbying (public good)

Little incentive for innovation  
because of risk of copying



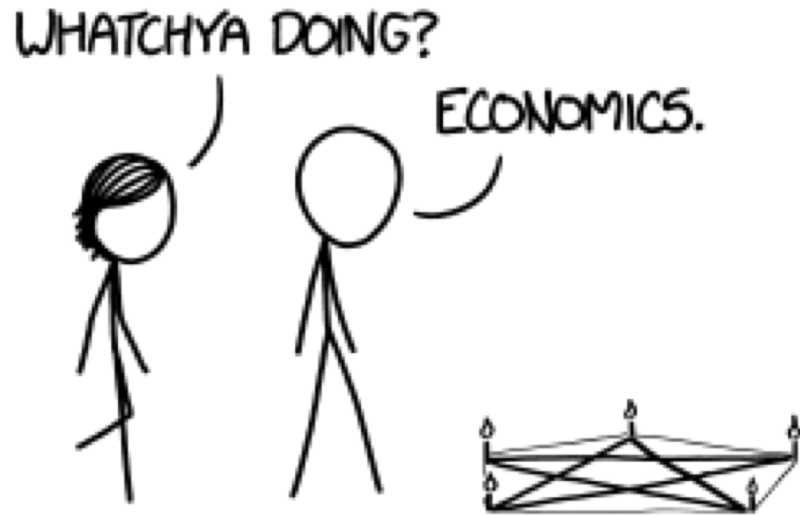
# Is competition always good?

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MARCH 25<sup>TH</sup> 2013

# What is macroeconomics?

Voodoo, for real



# **Microeconomics**

How individuals and firms make decisions and interact and influence markets

# **Macroeconomics**

How national and global economies work

# Things macroeconomists worry about

Output

Income

Growth

Unemployment

Inflation

Interest rates

Fiscal policy

Monetary policy

# People have... opinions...

## The Federal Reserve Explained in 3 Minutes

740,052 views



**Joshua Owens**

Published on Feb 21, 2013

See More Videos Here: <http://www.schoolhouseschock.com>

Money - whether its a tangible piece of paper or a number on a screen - is intrinsically worthless, yet it fuels the modern world. In America the ultimate control of money rests with the bankers of the Federal Reserve System. Because of this it is detrimental that we as citizens understand how this shadowy - private - organization works and how it's ultimate goal is to forever enslave us in a descending pit of debt that we will never crawl out of.

Category

Education



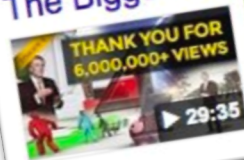
**VeracityMedia** 2 years ago

The most insidious form of covert soft slavery ever devised. Pure evil.

REPLY 70



**The Biggest Scam In The History Of Mankind - Hidden Secrets of ...**



<https://www.youtube.com/watch?v=iFDe5kUUyT0>  
Oct 15, 2013 - Uploaded by GoldSilver (w/ Mike Maloney)  
Bonus Presentation here: <http://www.hiddensecretsofmoney.com> Who owns the  
Federal reserve? You are ...

What is money?

**Where does money  
come from?**



# Banking in Smallville, USA

# Fractional reserve banking

Money is created through lending

What happens when lending doesn't match risk? (o hi 2008)

## Reserve Requirements

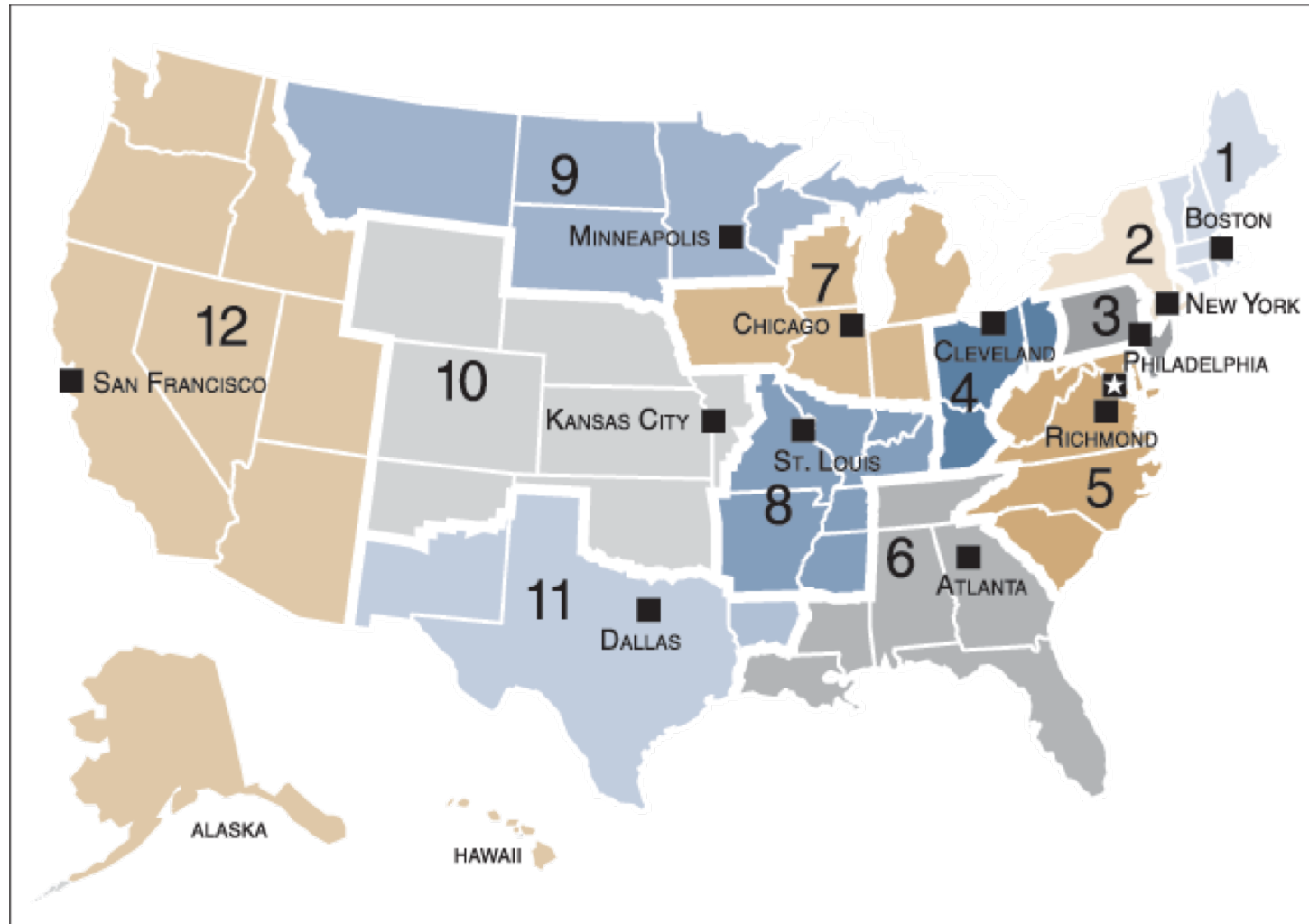
Make Full Screen 

| Liability Type   | Requirement      |                |
|--|------------------|----------------|
|  | % of liabilities | Effective date |
| Net transaction accounts <sup>1</sup>                    |                  |                |
| \$0 to \$16.0 million <sup>2</sup>                       | 0                | 1-18-18        |
| More than \$16.0 million to \$122.3 million <sup>3</sup> | 3                | 1-18-18        |
| More than \$122.3 million                                | 10               | 1-18-18        |
| Nonpersonal time deposits                                | 0                | 12-27-90       |
| Eurocurrency liabilities                                 | 0                | 12-27-90       |

# Monetary and fiscal policy

Macroeconomic brain surgery

# The Federal Reserve System



# Purposes of the Fed

Regulate banks and keep financial plumbing running

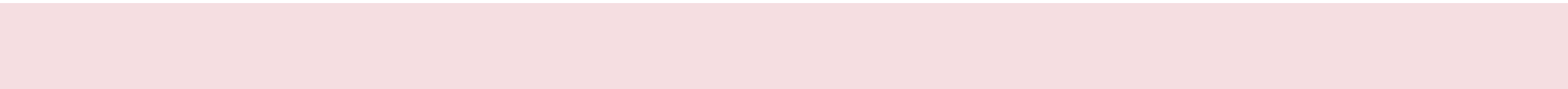
Use monetary policy to control inflation and unemployment

This dual mandate is unique to the Fed. Other central banks like the ECB only care about inflation.

# Money supply

How much money exists

| Type of money   | M0 | MB | M1 | M2 | M3 | M4 |
|---|----|----|----|----|----|----|
| Notes and coins in circulation (outside Federal Reserve Banks and the vaults of depository institutions) (currency)   | ✓  | ✓  | ✓  | ✓  | ✓  | ✓  |
| Notes and coins in bank vaults (vault cash)   |    | ✓  |    |    |    |    |
| Federal Reserve Bank credit (required reserves and excess reserves not physically present in banks)   |    | ✓  |    |    |    |    |
| Traveler's checks of non-bank issuers   |    |    | ✓  | ✓  | ✓  | ✓  |
| Demand deposits   |    |    | ✓  | ✓  | ✓  | ✓  |
| Other checkable deposits (OCDs), which consist primarily of negotiable order of withdrawal (NOW) accounts at depository institutions and credit union share draft accounts. |    |    | ✓  | ✓  | ✓  | ✓  |
| Savings deposits  |    |    |    | ✓  | ✓  | ✓  |
| Time deposits less than \$100,000 and money-market deposit accounts for individuals   |    |    |    | ✓  | ✓  |    |
| Large time deposits, institutional money market funds, short-term repurchase and other larger liquid assets   |    |    |    |    | ✓  |    |
| Commercial paper  |    |    |    |    |    | ✓  |





# Money supply

How much money exists

M0: physical currency

MB: M0 + Fed notes and deposits

M1: M0 + checks

M2: M1 + savings accounts

M1: <https://fred.stlouisfed.org/series/M1>

M2: <https://fred.stlouisfed.org/series/M2>

# How does the Fed manipulate the money supply?

Reserve requirements

Discount rate

Open market operations

<https://www.youtube.com/watch?v=wOfQPn9Jwpo>

<https://www.youtube.com/watch?v=1dq7mMort9o>

**BUSINESS**

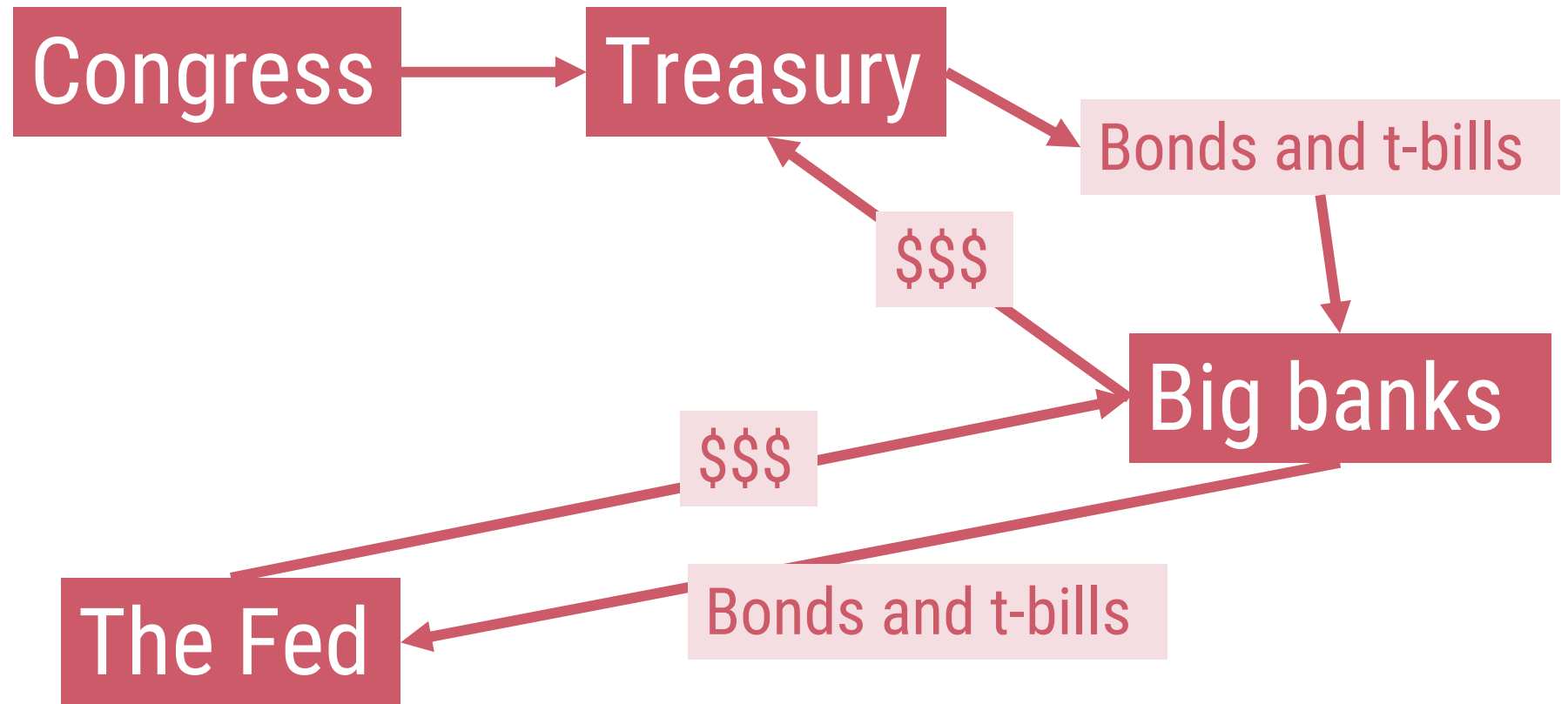
# Global shares fall weighed down by Fed rate hike talk



Posted 49 minutes ago

Updated 48 minutes ago

# Funding the federal government



# Fiscal policy

Government uses policy levers to influence economy

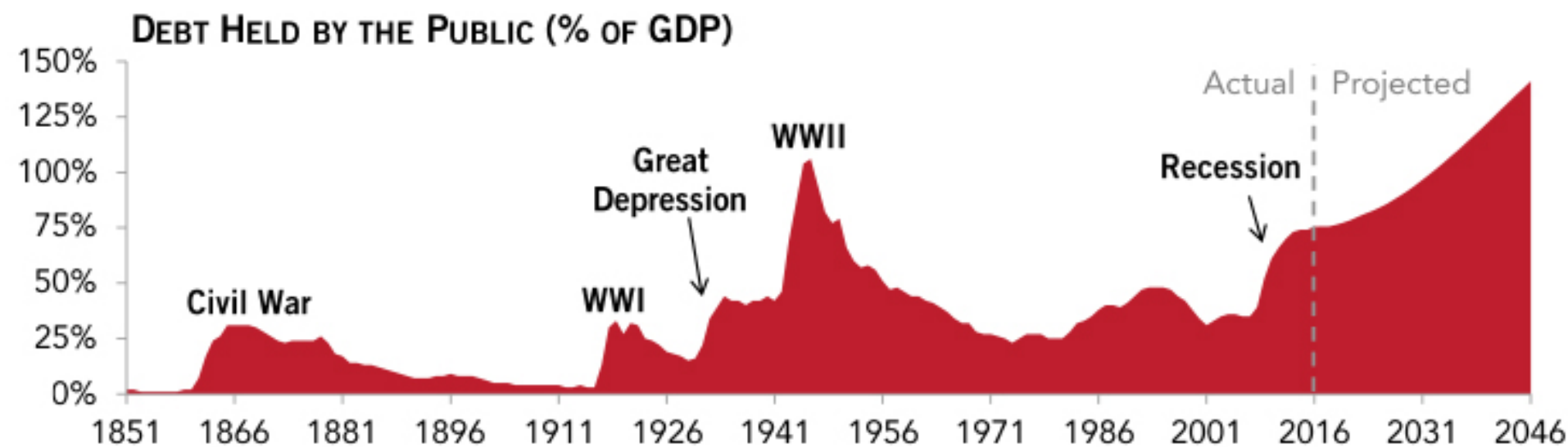
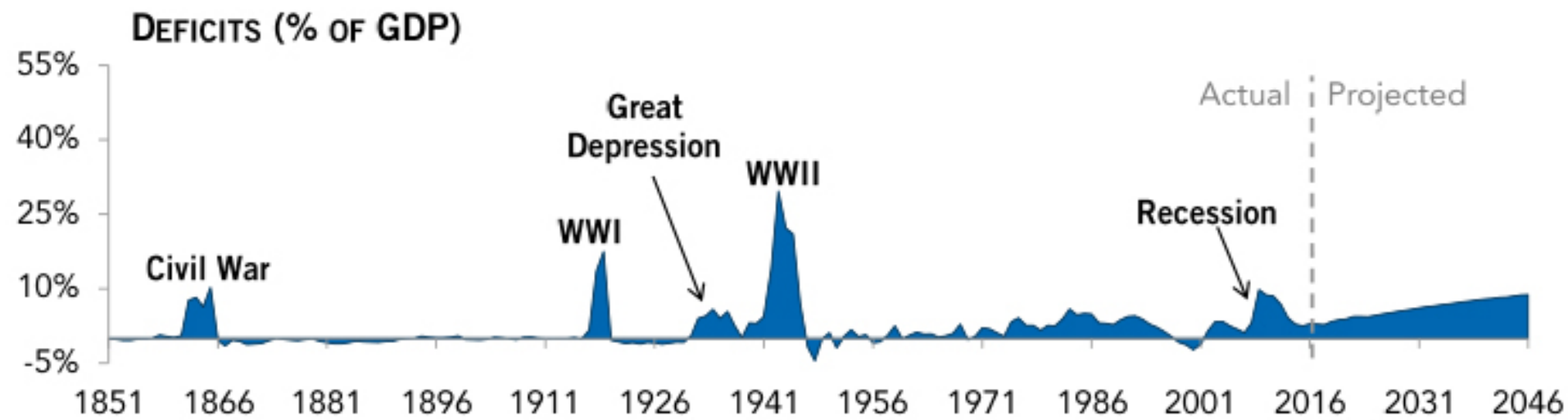
Taxing and spending



# Debt and deficits

**Deficit:** Revenue – expenditures in 1 year

**Debt:** All the past deficits added up



SOURCE: Congressional Budget Office, *The 2016 Long-Term Budget Outlook*, July 2016; Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2017*, February 2016; and the *Historical Statistics of the United States, Millennial Edition Online*, Cambridge 2006. Compiled by PGPF.

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[PGPF.ORG](http://PGPF.ORG)



# THINK OF AMERICA'S DEBT AS YOUR FAMILY BUDGET

Annual Family Income: \$21,737\*  
Annual Family Expenses: \$38,188  
Annual 'Credit Card' Debt: **\$16,451**  
Budget Cuts/Savings: \$385

**TOTAL 'CREDIT CARD' DEBT: \$142,000\***

\*Estimated 2014 U.S. Budget Closures in Hundreds of Millions of Dollars

It works the same way for the government. **You can't borrow your way out of debt**, whether you're a typical American family or the entire U.S. government. At some point, you've got to say, "Enough is enough!" and make the hard cuts necessary to win over the long haul.

## FISCAL YEAR 2012



Receipts:  
**\$2,468,599,000,000**

Outlays:  
**\$3,795,547,000,000**

Deficit:  
**\$1,326,948,000,000**

Projected national  
debt (end of FY):  
**\$16,350,885,000,000**

## HOUSEHOLD BUDGET



Family income:  
**\$24,686**

Money spent:  
**\$37,955**

New debt:  
**\$13,269**

Total family debt:  
**\$163,509**



# Federal government $\neq$ household

Government can create money with  
Fed/Treasury magic

Only real limit to government expenditure is inflation, not taxes;  
theoretically there could be no need to tax

There's no due date

Treasury bonds are exceptionally stable =  
super low interest rates

## **Main question**

Can the economy absorb new government spending without driving inflation?

Balancing the federal budget is a helpful trick for curbing inflation, but not all that necessary

# Monetary policy

Money supply

Interest rates

Bonds

The Fed

# Fiscal policy

Taxing

Public spending

Congress (and the Executive Branch)