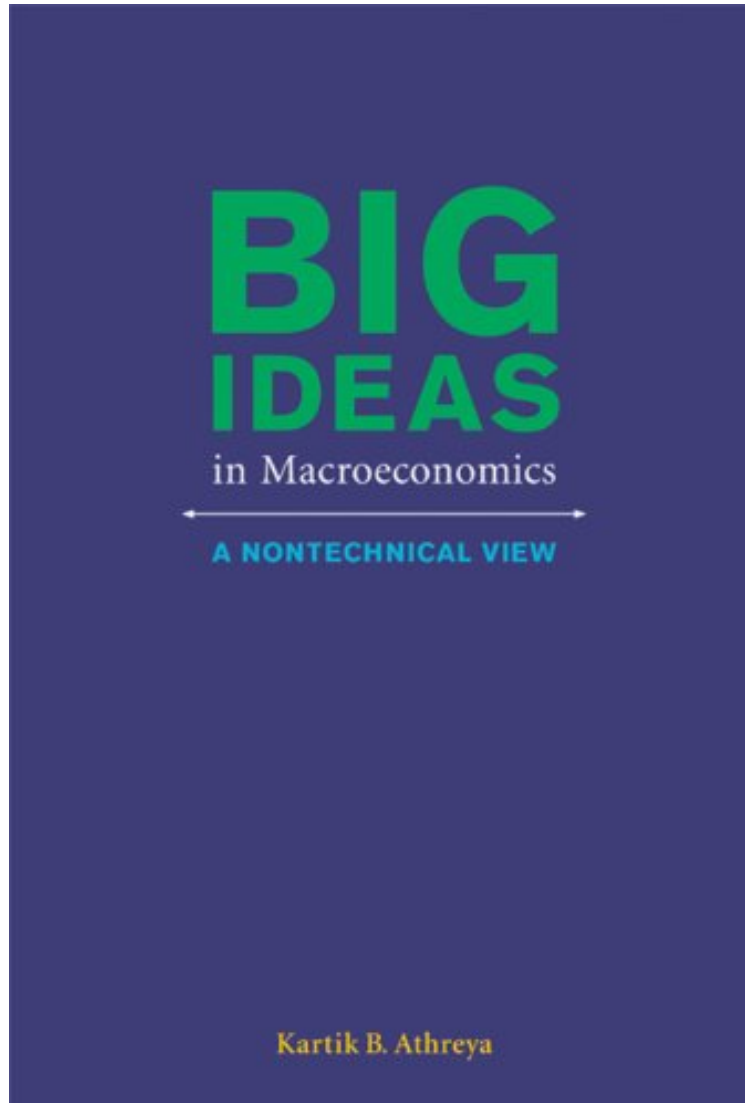


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Big Ideas in Macroeconomics: A Nontechnical View (MIT Press)

Kartik B. Athreya

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Kartik B. Athreya : Big Ideas in Macroeconomics: A Nontechnical View (MIT Press) before purchasing it in order to gage whether or not it would be worth my time, and all praised Big Ideas in Macroeconomics: A Nontechnical View (MIT Press):

54 of 58 people found the following review helpful. At Last! A Serious Presentation and Defense of Modern Macroeconomic TheoryBy Herbert GintisIt is easy to find excellent, accurate, accessible, and entertaining books that present the current theories and ideas in many fields, including law, physics, and biology. It is virtually impossible to find such books in economics. Sadly, when someone writes a book about economics, it almost always is an attempt to convince the reader that some politically motivated partial truth is the whole truth. There are some books that present

basic economic theory in an unbiased manner, and I review the ones I have found in an entry on my web site ([...] Click on You Must Read This! and look for "Books on Economics for Serious Beginners: Very Introductory Readings." But for the sort of advanced macroeconomic that guided policy makers and central bankers leading up to the financial meltdown of 2008, there has been virtually no serious accessible exposition without a political bone to pick. I love this book because it treats the reader as intelligent and discerning, presents the theory ably and in great detail, but avoids the mathematical detail that makes the material quite impenetrable to all but the expert who spends the bulk of his time devoted to the subject. The reader who even cursorily inspects this book might consider me a biased observer because I contributed a blurb to the book jacket and the author graciously thanks me for my support in the introductory pages. The fact is that I consider this an exemplary exposition of modern macroeconomics, and I think his defense of the theory is as good as one can find anywhere, the theory is in fact so weak that nothing can save it. People continue doing it not because it is good theory, but because it is the only game in town. I believe a complete revolution in macroeconomic theory is in the process of being born, although it will take some years to take over as the mainstream theory. Change in macroeconomic theory can be extremely rapid. Keynesianism displaced classical macroeconomics in just a few years after the end of WWII, and the reigning "rational expectations" macro displaced Keynesianism in just a few breathtaking years. This is a credit to economics as a discipline--given new evidence and given new economic conditions, young Ph.D. economists are quite willing to throw over the past, and in the best graduate schools, hiring of new faculty is based on how productive they are as researchers, not whether or not they agree with the reigning orthodoxy. Macroeconomics has always been deeply political. After WWII in Europe and the US, the growth in organized labor led to cost-push inflation (higher wages --> higher prices) and unemployment caused by wages above the market-clearing level. Keynesianism blamed the unemployment on the market system itself and suggested deficit spending as the way to restore full employment and accommodating higher prices by increasing the money supply. Of course, this is a stupid theory because it leads to chronic deficit spending and chronic inflation. With the decline in the power of organized labor (caused mainly by increased international competition eliminating domestic monopolies in internationally traded goods such as steel, mining, and automobiles), a resurgent right-wing macroeconomics, called rational expectations theory, displaced Keynesian macro by recognizing the fatal flaws in its reasoning, which contradicted economic rationality. Keynesianism remains today in an attenuated form that recognizes coordination failures and price inertia, but is mainly a liberal profession of faith. The only virtue of rational expectations macro (RA macro), which Athreya explains so nicely in this book, is that it killed Keynesian macro. The theory itself is nothing but smoke and mirrors. It purports to be solidly based on widely-accepted microeconomic principles that accurately describe the market economy (the "rational" in rational expectations), but this is simply false. The market economy is in fact a complex dynamic system whose behavior can be simulated, much as the weather is simulated by supercomputers, but cannot be captured in a few recursive equations, as the RA macro supporters claim. Instead of a large number of economic actors, RA macro assumes there is one "representative agent," and instead of large numbers of firms and industries, RA macro assumes there is one "production function." The only source of volatility in such a world is technology shocks and the vagaries of "expectations" (which of course cannot be measured, because they don't really exist). All we end up with is smoke and mirrors, plus lots of abstruse equations. Among the more bizarre modeling choices of RA macro is to assume that all markets clear instantaneously. This of course assumes away the coordination failures that really underlie macroeconomic fluctuations. Especially exotic is the assumption that there is always full employment! "Unemployed" workers are simply people who temporarily prefer not to work (they prefer "leisure," in the parlance of macro theory). In fact what happens in a recession is that millions of jobs disappear. The displaced workers prefer their old or equivalent jobs at their accustomed wages, but these are gone. Of course, many could find work at a lower wage, but that is not always the rational thing to do because the worker may get locked into the lower wage occupational level. This absurd sort of macro modeling would be okay if the resulting models predicted well, but they do not. RA macro long ago gave up econometric testing their equations in favor of "calibrating" them, which means just get the best fit you can, however poor. An poor they are. Of course, prediction is not everything. Engineers cannot predict when a car will go over a bump, but they can model the effects of such a shock on the car and proposed mechanisms (shock absorbers) that allow the system (the car) to survive the shock with minimal damage. The same is true, to a much more limited extent in macroeconomics, where "automatic stabilizers" can lessen the effects of shocks to the economy. The real problem with RA macro (and similarly of Keynesian macro) is the theory cannot deal with finance at all, and financial markets lie at the heart of contemporary economic instability. The Walrasian micro model on which RA macro is built simply has no place for money or finance. Graduate students in economic do not even study finance---that is left to the business schools. Of course, all of that is now changing. Economists around the world are revamping their theories and developing the empirical data on finance so that a more useful theory is likely to be forthcoming. It is a very exciting time for macroeconomics. Athreya's defense of the current theory is quite brilliant and I urge the reader to learn from him. However, we all know the story of the silk purse and the sow's ear. 0 of 0 people found the following review helpful. Great book! By someone in college Lots of good intuition in this book. Certainly helpful for a 1st year graduate student, also interesting for anyone wishing to understand modern economic thinking. New paperback is very

affordable. 2 of 7 people found the following review helpful. A textbook without math
By Declan Trott
On the one hand, this book does deliver what it promises - a non-technical description of the core methodology of mainstream macroeconomics - and does so reasonably well, given the difficulty of translating mathematics and game theory into English. Athreya's prose is lucid, if not sparkling. On the other, it is long, boring, full of jargon, and far more concerned with the internal consistency and logic of the models rather than their ability to explain economic events. The final chapter on financial crises feels tacked on, and mainly serves to underline how little use this style of economics has been in emergencies. This is mostly the subject's fault, not the author's. However, the author chose the subject, not just for one book but for his life's work. And the book is not just a description but a defense of the subject. So . . . what the hell, I'll blame him anyway. *Big Ideas in Macroeconomics* could be useful for intending or current graduate students to use as introductory or companion material. Anybody else? I doubt it. It is far too long and dense for the average reader (think Piketty's *Capital* minus the graphs and literary references). And it offers nothing to reassure those of us who fear that optimising microfoundations and rational expectations hit diminishing returns long ago.

Macroeconomists have been caricatured either as credulous savants in love with the beauty of their mathematical models or as free-market fundamentalists who admit no doubt as to the market's wisdom. In this book, Kartik Athreya draws a truer picture, offering a nontechnical description of prominent ideas and models in macroeconomics, and arguing for their value as interpretive tools as well as their policy relevance. Athreya deliberately leaves out the technical machinery, providing an essential guide to the sometimes abstract ideas that drive macroeconomists' research and practical policy advice. Athreya describes the main approach to macroeconomic model construction, the foundational Walrasian general-equilibrium framework, and its modern version, the Arrow-Debreu-McKenzie (ADM) model. In the heart of the book, Athreya shows how the Walrasian approach shapes and unifies much of modern macroeconomics. He details models central to ongoing macroeconomic analyses: the neoclassical and stochastic growth models, the standard incomplete-markets model, the overlapping-generations model, and the standard search model. Athreya's accessible primer traces the links between the views and policy advice of modern macroeconomists and their shared theoretical approach.

This fine book succeeds very nicely at its stated task: to explain the standard macroeconomic theory used by central banks around the world without equations. This book is complex and sophisticated, yet clearly and transparently written. The author is honest concerning the weaknesses of this model, but confident that most can be overcome in the future. If you have heard the chorus of critics since the financial crisis of 2008, and if you are serious about understanding the issues, this is a good place to start. (Herbert Gintis, Santa Fe Institute) Using only the English language, Kartik Athreya conveys to a nonspecialist audience what modern macroeconomists do, why we do it using specific rules of engagement, and why we end up thinking what we think. *Big Ideas in Macroeconomics* is to my knowledge the only book of its kind. (Mark Huggett, Professor of Economics, Georgetown University) The first year of graduate macroeconomics is hard for aspiring economists and demands much of their instructors. But matters just became easier. Kartik Athreya's beautiful book summarizes the main ideas in macroeconomics with lucid prose and insightful commentary. Graduate students can peek at it to understand the big picture, and faculty can learn a thing or two from it about why we teach what we teach. I have read the book twice, cover to cover, and each time it helped me to rethink many of the things I thought I knew. Furthermore, adventurous undergraduates, economists who have lost touch with the frontier of macro, and curious readers in general will find in this slim volume a truly wonderful and nontechnical summary of the 'rules of the game' for our field. (Jesus Fernandez-Villaverde, University of Pennsylvania) About the Author Kartik B. Athreya is Senior Vice President and Director of Research at the Federal Reserve Bank of Richmond and an Associate Editor of the *Journal of Economic Dynamics and Control*.