

# From Economic Tools to Macroeconomic Policy

*This is what we are doing here.*

In Chapters 1 through 9, you will build the basic tools needed to understand how a macroeconomy works. These early chapters introduce the language of economics, the role of markets, the measurement of economic activity, unemployment, inflation, production, and the major forces that shape economic performance. Each topic prepares you for the central model we will use in Chapter 10: Aggregate Demand and Aggregate Supply.

In Chapter 10, we bring those tools together to analyze the current condition of an economy through the Aggregate Demand and Aggregate Supply model. This model helps us interpret whether an economy is operating at full employment and potential real gross domestic product, whether it is experiencing a recessionary gap, or whether it is facing an inflationary gap. In other words, Chapter 10 gives us a framework for diagnosing where the economy stands and what kind of problem may need to be addressed.

In Chapters 11 through 14, we then turn from diagnosis to policy. Once we identify whether the economy is below, at, or above its potential level of output, we examine the major schools of macroeconomic thought and policy response. Keynesian economics, Neoclassical economics, and Monetarism each offer different explanations of how the economy adjusts and what role government policy should play. We also study the Federal Reserve and the banking system because monetary policy and the financial system are central to how modern economies respond to recessionary and inflationary pressures.

The purpose of this sequence is to help you move from basic economic concepts to practical macroeconomic reasoning. By the end of these chapters, you should be able not only to describe the condition of an economy, but also to evaluate which policy approach may be most appropriate for correcting a recessionary gap or an inflationary gap.