

Contents

1 Basics	1
2 Macroeconomic Accounting	5
2.1 Circuits in the Macroeconomic Accounting	6
2.2 Case Study: New GDP Calculation	10
2.3 Terms of the Macroeconomic Accounting	17
2.4 Output, expenditures and distribution approach	25
2.4.1 The Output (or Value Added) approach	25
2.4.2 Expenditures Approach	26
2.4.3 The Distribution Approach of National Income	27
2.5 Case Study: European Wealth and GDP	31
References	35
3 Neoclassical Macroeconomic Model	37
3.1 Marshall's Supply and Demand Cross	37
3.2 The Companies	43
3.2.1 The Production Function	43
3.2.2 Case Study: Supply-Oriented Employment Policy	49
3.2.3 Case Study: Productivity in Germany	51
3.2.4 Case Study: Development of Real Wages	52
3.2.5 Case Study: The Plague and Factor Prices	53
3.3 The Households	54
3.4 Capital and Labor Market	57
3.5 The Real Sector	59
3.6 The Saysche Theorem	62
3.7 The Money Market	63
3.8 The Neoclassical Overall Model	68
3.9 Economic Policy in the Neoclassical Model	70
References	79

4 Inflation	81
4.1 What is Inflation?	81
4.2 Disadvantages of Inflation	85
4.3 Case Study: Hyperinflation Germany	90
References	98
5 Monetary Policy and its Implementation by the European Central Bank	99
5.1 Advantages of a Unified European Currency Area	99
5.2 The Founding of the ECB	100
5.3 National Fiscal Policy	101
5.4 Problems of a Unified Monetary Policy	104
5.5 The Missing Political and Economic Agreement of Europe	106
5.6 Organizations of the ECB	108
5.7 Basics of European Central Bank Monetary Policy	110
5.7.1 Political Independence	110
5.7.2 Targets	111
5.7.3 The Money Creation Process	112
5.7.4 Process of Financial Intermediation by Commercial Banks	117
5.7.5 The Monetary Policy Instruments of the ECB	119
5.8 Open Market Operations (As Interest and Monetary Policy)	119
5.9 Standing Facilities	120
5.10 Minimum Reserve	121
5.11 Quantitative Easing, the New Monetary Policy at the Capital Market ...	124
References	129
6 Keynesian Theory	131
6.1 Case Study: The World Economic Crisis	132
6.2 Case Study: Keynes and the Relevance of His Theory Illustrated by the Financial Crisis	135
6.3 The Consumption Function	138
6.4 The Saving Function	139
6.5 The Income-Expenditure Model	141
6.6 Expenditure and Tax Multiplier	147
6.7 Interpretation of Keynesian Demand-Oriented Policy	151
6.8 The Investment Function	153
6.9 Excursus: Interest Rates in Practice, the Yield Curve	155
6.10 The Capital Market Equilibrium	157
6.11 The Money Market Equilibrium	160
6.12 The IS/LM Model	167
6.13 A general Keynesian Aggregate Model (Neoclassical Synthesis)	171
6.14 Keynesian Economic Policy in the Normal Situation	174

6.14.1	Expansive Credit-Financed Fiscal Policy	174
6.14.2	Expansive Tax-Financed Fiscal Policy	177
6.14.3	Expansive Monetary Policy	178
6.15	Keynesian Explanations of Depressions	179
6.15.1	The Great Depression and the Financial Crisis	179
6.15.2	The Investment Trap	181
6.15.3	The Liquidity Trap	183
6.16	Keynesian Economic Policy in the Depression	186
6.16.1	Credit-Financed Expansionary Fiscal Policy in the Investment Trap	186
6.16.2	Expansive Tax-Financed Fiscal Policy in the Investment Trap	188
6.16.3	Credit-Financed Expansive Fiscal Policy in the Liquidity Trap	188
6.16.4	Expansive Tax-Financed Fiscal Policy in the Liquidity Trap	190
6.17	Keynesian Economic Policy	191
6.18	Expansive Monetary Policy with Rigid Wages	193
6.19	The Mundell-Flemming Model of the Open Economy	195
	References	199
7	Business Cycles in Theory and Practice	201
7.1	The Economic Phenomenon of Business Cycles	201
7.2	Dynamic Keynesian Approaches: The Hicks Supermultiplier	205
7.3	Neoliberals Versus Keynesians, A Synthesis	210
7.4	Growth Determinants as Business Cycle-Triggering Factors	212
7.4.1	Technical Progress	212
7.4.2	The New Growth Theory	215
7.5	Overinvestment Theories and Experiments	216
7.6	Distributional Conflicts to Explain Fluctuations in the Business Cycle: The GOODWIN Model	227
7.7	Shocks and Price Rigidities: New Keynesian Macroeconomics and Neo-Keynesian Macroeconomics	232
7.8	Political Business Cycles: Nordhaus' Political Business Cycle Model ...	237
7.9	Monetary Policy as a Cause of the Business Cycle	241
7.9.1	The Interest Rate Spread Theorem By Knut Wicksell.	241
7.9.2	Hayek's Perverse Elasticity of Credit Supply	243
7.9.3	Case Study: US Monetary Policy in the Tension Field of Stock Market Development	244
7.9.4	Review of Monetary Policy Goals	248
7.9.5	Empirical Verification of the Effects of a Zero Interest Rate Policy On Risk Behavior	256

7.9.6	The Effects of Money Supply and Interest Rates on Stock Prices, Evidence from Two Behavioral Experiments	264
7.9.7	Monetary Policy Conclusion	275
7.10	Psychological Factors as a Cause of the Business Cycle.	276
7.10.1	Adaptive Expectations in Monetarist Theories	276
7.10.2	Fluctuations in Demand Due to Incorrect Adjustment Reactions: The Original Approach of New Classical Macroeconomics	277
7.10.3	Disturbance of the Market Equilibrium By Real Exogenous Shocks: The Real Business Cycles Theories	280
7.10.4	Sunspot Variables as Psychological Influences On Business Cycle Development	281
7.10.5	Speculative Bubbles as Triggers of Economic Fluctuations	282
7.11	Final Assessment of the Theories of Economic Development.	295
	References.	300
8	International Financial Markets after the Financial Crisis	309
8.1	The Financial Crisis and the Reforms to Stabilize the Financial Markets	309
8.1.1	The Subprime Crisis, the Biggest Financial Crisis After 1929	309
8.1.2	Some Causes of the Financial Crisis in the Light of Behavioral Theory	318
8.1.3	The Reforms of the International Financial Market Order	341
8.2	Speculation in the International Financial Markets	350
8.2.1	What Empirical Evidence do we Have About Speculation Influencing Markets?	351
8.2.2	Critique of Methodology	354
8.2.3	The Logic of Speculation.	357
8.2.4	Price Distortions and Price Manipulation	359
8.2.5	Irrationality and Bubble Creation?	361
8.2.6	Conclusion	362
8.3	Conclusion International Financial Markets After the Financial Crisis	363
	References.	365
9	Solutions to Exercise Questions	375
	Appendix	397