

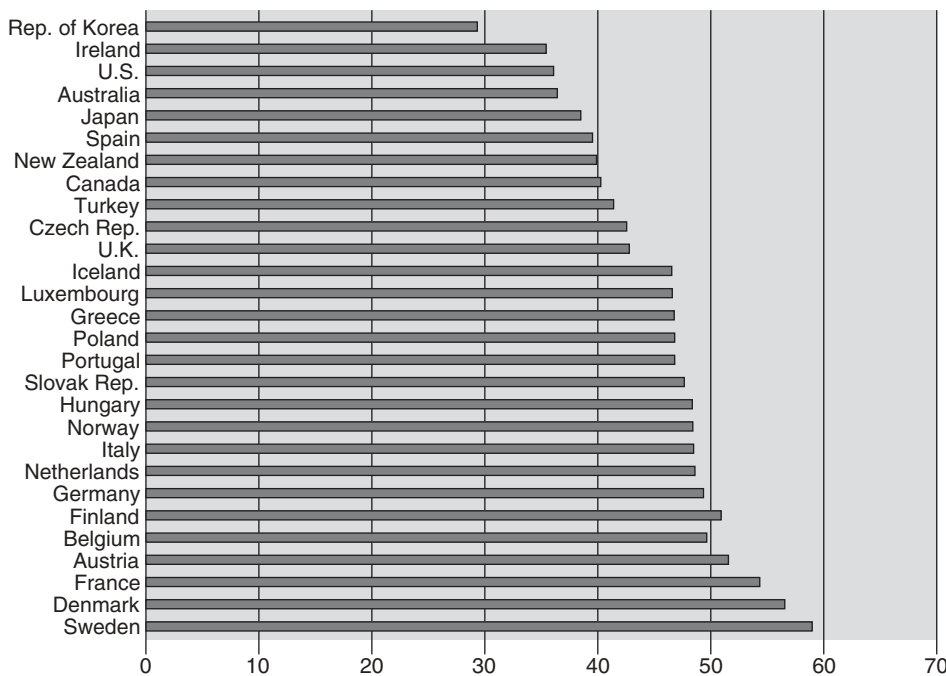
SECOND EDITION

# MACROECONOMICS

UNDERSTANDING THE WEALTH OF NATIONS

DAVID MILES ♦ ANDREW SCOTT

## Government Spending Percent of Nominal, GDP



Source: World Bank, World Development Indicators (2003).

## Highest Inflation (%)

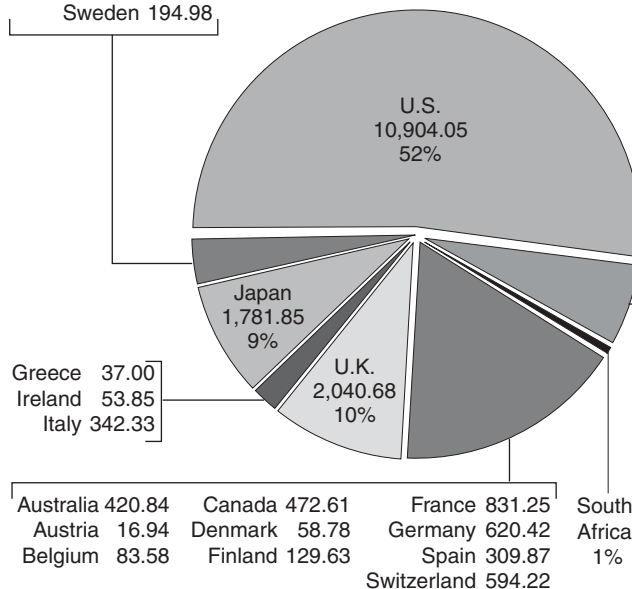
Annual Average, 1990–2003

Congo, Dem. Rep.	2478.7
Georgia	1655.8
Armenia	837.8
Nicaragua	788.3
Angola	770.8
Turkmenistan	748.5
Ukraine	615.7
Brazil	613.2
Peru	569.6
Belarus	489.5
Kazakhstan	445.0
Tajikistan	415.6
Azerbaijan	345.1
Uzbekistan	283.2
Russia	280.6
Moldova	213.4
Croatia	192.9
Kyrgyz Republic	191.4
Argentina	183.4
Macedonia	178.3

Source: IMF, World Economic Outlook Database (June, 2004).

## Stock Markets' Capitalizations (\$mn 2003)

Netherlands	413.09
New Zealand	19.30
Norway	37.11
Portugal	32.17
Sweden	194.98



## Emerging Markets

Country	Capitalization (\$mn)
Argentina	2.40
Brazil	90.35
Chile	20.87
China	51.40
Colombia	1.02
Czech Rep	4.02
Egypt	2.78
Hong Kong	236.31
Hungary	9.90
Indonesia	13.78
India	47.42
Israel	30.35
South Korea	207.42
Malaysia	52.04
Morocco	1.30
Mexico	82.60
Pakistan	2.45
Peru	3.23
Philippines	4.30
Poland	10.22
Russia	46.59
Singapore	72.21
Thailand	21.81
Turkey	13.53
Taiwan	256.69

Source: The Financial Times (January, 2004).

## Lowest Inflation (%)

Annual Average, 1990–2003

Belize	-1.03
Saudi Arabia	0.55
Japan	0.65
Bahrain	0.68
Oman	0.93
Panama	1.12
Bosnia and Herzegovina	1.2
Brunei Dar	1.56
Singapore	1.56
Dominica	1.86
France	1.91
Switzerland	1.93
Austria	2.03
Belgium	2.07
Germany	2.12
Taiwan	2.14
Finland	2.2
Denmark	2.22
Canada	2.31
Luxembourg	2.32

Source: IMF, World Economic Outlook Database (June, 2004).



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THE WEALTH

OF NATIONS



S E C O N D E D I T I O N

# MACROECONOMICS

## UNDERSTANDING THE WEALTH OF NATIONS

**David Miles**

Professor of Finance  
The Tanaka Business School  
Imperial College  
London

**Andrew Scott**

Professor of Economics  
London Business School  
London



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We wrote the first edition of this textbook in the firm belief that there was scope for a different approach to teaching students macroeconomics. This approach is one that pays great attention to real-world data and actual events and also reflects a belief that both economic models and current research could be made accessible to introductory students and would help explain how the global economy works.

However convinced we may have been that such an approach was possible, writing the first edition was still something of an experiment. As economists, we never forget that the market is the ultimate arbiter of success. We have therefore been enormously reassured both by the sales and feedback that the first edition received. The global focus of the book was rewarded with a wide geographical distribution of sales; our blending of data, textbook models, and summaries of recent research meant the book has been adopted at the undergraduate level and even for Master's and Ph.D. programs in economics as well as the MBA market for which it was originally designed. The use of contemporary data has also led to the book being adopted for economics courses in various government departments.

Most reassuring of all has been the feedback from students—they seem to have enjoyed reading the book and feel they understand the economy, as well as economics, better as a result. This positive feedback helped motivate us to work on this second edition, and convinced us to preserve the same key ingredients:

- A focus on making the reader a “sophisticated” consumer of economics. We do so by stressing the logic and intuition of economics rather than resorting immediately to technical model building and curve shifting.
- A global outlook using historical and contemporary data from around the world.
- Introducing substantive real-world issues first to motivate students and then introducing concepts and frameworks to explain them. Rather than illustrate models with insert boxes, we integrate the facts and the analysis.
- Utilizing textbook models as well as summaries of recent and advanced research.

But experience and feedback have also led us to make a number of improvements:

- *Increased global focus* We have added more examples from a broader range of countries. We have supplemented the chapter on global trade and the three chapters on global financial markets by adding a completely new chapter on globalization and global institutions.
- *Updated charts and issues* A feature of the textbook commented on by students and instructors alike is the wealth of data from a range of countries. All of this has been extended, where possible, to the end of 2003. We have also added analysis of recent economic developments including the “post-2000” U.S. slowdown, the breakdown of WTO talks, the Argentinean currency crises, and so forth.
- *Pedagogic changes* The book covers a huge range of countries and issues. In order to streamline the presentation and make students aware of the key issues



and concepts, we have added Key Concepts and Key Points to each chapter. We have shortened each chapter and also dropped the separate chapters on the banking sector and real estate, though much of that material reappears elsewhere.

- *IS-LM* The success of the book in undergraduate courses led to a strong demand for the development of a consistent analytical framework that built on each chapter. We have therefore integrated at the end of several chapters a development of the workhorse IS-LM model. However, we have done so in a self-contained way that enables business school students to avoid this material without any loss in understanding or continuity.

### TEACHING FROM THIS BOOK

Different business schools and undergraduate colleges tend to teach different types of macroeconomics courses and the comprehensiveness of the book easily enables this. Obviously, instructors can choose whatever sequence of topics they prefer, but below we outline 3 different 10-topic courses that could be taught.

**MACROECONOMICS—UNDERSTANDING THE GLOBAL ECONOMY** A comprehensive course covering growth, business cycles, exchange rates, stabilization policy, and trade (as taught at the London Business School).

- Lecture 1—Data and Definitions, Chapters 1–2
- Lecture 2—Capital Accumulation and Endogenous Growth, Chapters 3, 4, and 6
- Lecture 3—Technological Progress, Chapter 5
- Lecture 4—Labor Markets, Chapter 7
- Lecture 5—Trade, Chapters 8–9
- Lecture 6—Fiscal Policy, Chapter 10
- Lecture 7—Money and Inflation, Chapter 11
- Lecture 8—Exchange Rates, Chapters 19–21
- Lecture 9—Business Cycles, Chapter 14
- Lecture 10—Stabilization Policy, Chapter 16

**MACROECONOMICS: BUSINESS CYCLES AND INTERNATIONAL MACROECONOMICS** A course focusing on business cycles and the international economy but excluding the supply side issues of growth, labor markets, and trade.

- Lecture 1—Data and Definitions, Chapters 1–2
- Lecture 2—Fiscal Policy, Chapter 10
- Lecture 3—Money and Inflation, Chapter 11
- Lecture 4—Consumption and Investment, Chapters 12–13
- Lecture 5—Business Cycles, Chapter 14
- Lecture 6—Stabilization Policy, Chapter 16
- Lecture 7—Monetary Policy, Chapter 15
- Lecture 8—Exchange Rates: PPP, Chapter 19
- Lecture 9—Exchange Rates: Exchange Rate Regimes and Crises, Chapter 21
- Lecture 10—Global Capital Markets, Chapter 20

**MACROECONOMICS: GLOBAL BUSINESS AND FINANCIAL MARKETS** A course focusing on the drivers of demand in world markets and the interaction between financial markets and the wider economy (as taught in several MBA programs).

- Lecture 1—Data and Definitions, Chapters 1–2
- Lecture 2—Trade and Globalization, Chapters 8–9
- Lecture 3—Fiscal Policy, Chapter 10
- Lecture 4—Money and Inflation, Chapter 11
- Lecture 5—Consumption and Investment, Chapters 12–13
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- Lecture 7—Stabilization Policy, Chapters 15–16
- Lecture 8—The Equity Market, Chapter 17
- Lecture 9—The Bond Market, Chapter 18
- Lecture 10—Exchange Rates and Global Capital Markets, Chapters 19–21

## SUPPLEMENTARY MATERIAL

**WEB SITE** (<http://www.wiley.com/college/miles>) A robust Web site provides support to both students and instructors. Students are able to take practice quizzes on-line so as to help assess their understanding of core concepts within the text. All of the instructor's teaching aids are also provided by chapter electronically within a password-protected environment.

**INSTRUCTOR'S MANUAL** Provides guidance to instructors on how best to use the textbook, through its chapter summaries, learning objectives, teaching suggestions, additional examples, answers to end-of-chapter exercises, and additional problems and solutions. This on-line resource also includes case studies with discussion questions to drive classroom discussion or to help facilitate homework assignments.

**TESTBANK** Offers an extensive set of multiple-choice questions relating to the concepts and topics within the text via the companion Web site. A customizable version is available on the companion Web site.

**POWERPOINT PRESENTATIONS** A set of over 1,000 PowerPoint slides is available to instructors within the companion Web site located at [www.wiley.com/college/miles](http://www.wiley.com/college/miles). These slides contain all the charts, figures, and tables in the textbook as well as some additional material, such as key topics and concepts within each chapter.

**BUSINESS EXTRA SELECT** ([www.wiley.com/college/bxs](http://www.wiley.com/college/bxs)) Business Extra Select enables you to add copyright-cleared articles, cases, and readings from such leading business resources as INSEAD, Ivey, Harvard Business School Cases, *Fortune*, *The Economist*, *The Wall Street Journal*, and more. You can create your own custom CoursePack, combining these resources with content from Wiley's business textbooks, your own content (such as lecture notes), and any other third-party content. Or you can use a ready-made CoursePack for Miles and Scott, *Macroeconomics, Second Edition*.

## ACKNOWLEDGEMENTS

When we discovered how much work it was to write the first edition, we consoled ourselves with the fact that producing a second edition would be much quicker. We were

wrong—it wasn't. Our task was, however, once more helped enormously by the skill and efforts of John Wiley's U.S. and European offices. We remain enormously indebted to Steve Hardman who originated the project many years ago and has remained supportive ever since. We suspect he has found participating in the subsequent birth of his children a far easier experience as a result of his efforts with this gestation. Steve has also been assisted by the excellent and enthusiastic efforts of Anna Rowe who has been instrumental in generating what we believe are significant improvements to the first edition. Being a global textbook means we have been helped not just by John Wiley, Europe but also John Wiley, U.S. where Leslie Kraham and especially Cindy Rhoads have once more managed the difficult task of politely, but menacingly, pointing out that timetables are not works of fiction. We are also indebted to their lengthy efforts at getting U.S. based faculty to help make this a truly globalized product. If the book succeeds, it will also be in no short measure to the efforts of Sheralee Connors who did fantastic service in editing the text and simplifying its flow. The manuscript was further improved by the copyediting of Martha Beyerlein.

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