Applied UK Macroeconomics

To Robert and Alison

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Preface and Acknowledgements

This book is intended for students who have already taken an introductory course in macroeconomics in that it takes for granted an understanding of national income accounting and some elementary macroeconomic theories.

Readers familiar with *Macroeconomics and the British Economy*, published eight years ago, may ask what relationship the two books bear to one another. The answer is that though they are addressed to the same audience the approach adopted here is completely different. *Macroeconomics and the British Economy*, though containing an unusually high empirical content, was in many ways a conventional textbook, in which macroeconomic theory was central. In this book, on the other hand, it is the applied material that comes first, with theory being kept in a subordinate role. Most of the macroeconomic theory that is usually found in intermediate macroeconomics textbooks is left out, and where theory has to be discussed, either because (as in the case of the accelerator) the discussion of applied issues could not be understood without it, or because (as with Tobin's q) it is covered inadequately or not at all in most conventional textbooks, it is confined to clearly defined boxes.

This book can be used in two ways. One is as a supplement to a more orthodox intermediate macroeconomics or macroeconomic theory textbook. The other is on its own as the basis for a purely applied macro course. Suggestions for further reading are included at the end of each chapter to make it easier to use in this way.

The entire contents of this book was prepared on IBM-compatible PCs. The text was written using Protext. The data were processed using Micro TSP and then turned into graphs using GEM Graph. GEM Draw was used to prepare the remaining diagrams and to get the figures produced by GEM Graph into the correct format. The diagrams and text were then put together using DESK*press*, which produced postscript files containing descriptions of the final pages.

Preparing the book in this way has made it possible to add material at a comparatively late stage in the production process. However, the appearance of new statistics and new material is a never-ending process, and so a line has to be drawn somewhere. The rule I have adopted is that all tables and graphs have been revised to take account of information available in July 1990. In addition, I have modified parts of the text to take account of developments in the period up to the end of October 1990. Thus I have discussed the recent rise in oil prices and British entry into the exchange rate mechanism of the EMS, and I have taken account of some new evidence on productivity growth, but I have not systematically revised all tables and figures to include all new statistics published in the last three months. Such a task would have taken up more time than was available, and in most cases would not have made much difference to the arguments.

Except where something different is indicated, all constant-price variables are measured using 1985 prices. Where no units are specified, variables are measured as index numbers with 1985 = 100.

I should like to thank those colleagues who have read and commented on parts of the book, and who have provided me with ideas, data, and encouragement, particularly Gianna Boero, Simon Burgess, Peter Burridge, Paul Kong, Ben Knight and Robin Marris. Garry MacDonald and David Turner supplied their Ready Reckoner program, on which virtually all of chapter 12 is based. Needless to say, none of them can be held responsible for the use I have made of their ideas. Because this is a textbook, references to sources have been kept at a minimum. The main sources on which I based this book are listed in the suggestions for further reading.

R. E. B.
November 1990