

Book review

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INTRODUCING ADVANCED MACROECONOMICS: GROWTH AND BUSINESS CYCLES

Sørensen, P. B., & Whitta-Jacobsen, H. J. (2010). (The 2nd Edition) Edinburgh, Berkshire, UK: McGraw-Hill Education, ISBN 13: 9780077117863; ISBN 10: 0077117867, XXV+820

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In the book entitled: *Introducing Advanced Macroeconomics: Growth and Business Cycles*, the authors Peter Birch Sørensen (Chief Economist of the Central Bank of Denmark) and Hans Jørgen Whitta-Jacobsen (Professor of Economics at the University of Copenhagen) discuss the key macroeconomic problems related to economic growth and cyclical fluctuations of the economy, in an analytical and comprehensive manner, with an abundance of statistical data and examples. The categorical tool and methodological instruments applied in this book is what recommends it to the scientific and professional community, and can be useful to policy makers.

Bearing in mind that modern macroeconomic theory in the domain of the long-run analysis focuses the main attention on the problems of economic growth, and within the short-run analysis – it is on the problems of the business cycles, the authors have organized the book into two subsections – the first entitled: *Economic growth, long-run unemployment and structural economic policy*, and the second, entitled: *Economic fluctuations,*

short-run unemployment and stabilization policy. Of the seven parts which the book consists of, the first subsection encompasses parts 1-4, while parts 5-7 are encompassed by the second subsection.

In the first part: *Basic theory and empirics about prosperity and growth* (pp. 55-124), the authors start from the basic variant of R. Solow's model, in which the accumulation of capital – human and physical – is the basic factor of economic growth. The influence of the domestic savings level on the growth rate, through "the golden rule of saving", is presented in a logical manner and shows a tendency of economic trends towards the so-called steady state. The further a particular economy is from its steady state, the higher its rates of economic growth will be, which is the basis for the hypothesis of the so-called conditional convergence between countries. In the continuation of the first part, the authors extend the analysis to the case of a small open economy, given that in terms of globalization, the country can finance part of investments using foreign sources. Apart from the positive aspects in this context (of which the most significant one is an increase in capital mobility), the authors point out the negative side, primarily associated with an increased sensitivity of the domestic economy to a global economic disruption.

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The second part, entitled: *Exogenous growth* (pp. 125-212), further approaches the Solow model to the real-world conditions, including the impact of technological progress on economic growth, so that the model can explain the long-run growth of the gross domestic product (GDP) *per capita* as opposed to the constant values characterizing the steady state, discussed in the previous part. The following analysis includes the impact of human capital on the formation of the long-run path of economic growth, as well as a restriction on growth, which are related to the scarcity of natural resources. On the example of 65 countries, the authors provide an empirical confirmation of the predictions provided by this model.

Endogenous growth (pp. 213-274) is the title of the third part, in which the authors go beyond the lack of the Solow model – respecting an assumption on exogenous economic growth. The endogenous growth model, which they are developing, is based on the view that the long-run growth rate, as a dependent variable, is in positive correlation with the rate of investment in physical and human capital, the growth rate of the population and, in particular, the rate of investment in research and development. In this way, the model allows the analysis of the impact of the economic policy on the long-run income to increase *per capita* through the effects of the aforementioned factors. On the example of 65 countries in the period 1960-2000, the authors demonstrate a positive relationship between the average rate of investment in physical capital, and the average growth rate of the real GDP per worker.

In the fourth section: *Structural unemployment* (pp. 275-352), the authors analyse the causes of unemployment in the short and long run: an oversupply of labour, wage rigidity in the long and short run, and a possibility of the existence of the so-called frictional unemployment. A special emphasis in explaining unemployment is put on the theory of efficiency wages and the role of trade unions. The role of the efficient wage is analysed from the microeconomic point of view, after which its implications for the whole economy are explained. The authors come to a conclusion, consistent with the current understanding, by which the balance in the labour market in the model of efficiency wages implies a certain percentage of involuntary unemployment. In a similar way, they analyse the impact of trade unions

on structural unemployment, proving that the level of unemployment benefits, as well as the market power of the actors in the labour market, is positively correlated with the unemployment rate.

In the second subsection, the authors discuss the basic facts of the business cycles, their measurement, and the ways of decomposing the gap of the domestic product. In the fifth part: *The building blocks of a short-run model* (pp. 387-514) explains the basic constituent elements of the model for the analysis of the business cycles: 1) investments and asset prices, 2) consumption, income, and wealth, 3) monetary policy and aggregate demand, and 4) inflation, unemployment, and aggregate supply.

The aforementioned model is applied in the sixth part: *The short-run model for the closed economy* (pp. 515-682). It draws a clear line between the conventional understanding of the business cycles and the understanding of the theory of the real business cycles. In addition, the authors analyse the reasons for the implementation of a stabilization policy (primarily the negative impact of fluctuations in output and inflation in the social welfare), and the ways in which this policy can be implemented (discretion rights or rules, a monetary or fiscal policy, etc.), including limitations due to the problem of the time inconsistency of the economic policy. The authors also discuss the impact of the stabilization monetary policy during the Great Depression in 2007. By using a stochastic model of aggregate supply and demand (AS-AD) with adaptive expectations, which includes shocks on supply and demand, they confirm a high degree of the compatibility of the model results with the statistical data on the movement of the American economy in the period 1974-2007.

In the last, seventh part: *The short-term model for the open economy* (pp. 683-797), the authors include the capital mobility problems, purchasing power parity, and different exchange rate regimes in the model. The further analysis is based on two modes: the fixed and fluctuating exchange rate, which are included in the AS-AD model for the open economy; however, the authors do not provide an answer to the question of which exchange rate regime is better; they rather point to the necessity of respecting the specificity of a particular economy.

The inclusion of the vital elements of modern macroeconomic theory (the influence of the expectations of economic agents on the effects of an economic policy, the concept of the natural rate of unemployment, endogenous growth factors, etc.) as well as coherence and an internal consistency, make this book useful and up-to-date. The focus of the analysis on empirical research and proving initial theoretical assumptions are a valuable bridge between theory and practice. However, the study does not

incorporate the specificities of developing countries and countries in transition, so the applicability of the presented models is limited to developed countries. In this sense, the use of the models for conducting a stabilization economic policy in Serbia and ensuring sustainable economic growth and development is limited by the characteristics of its economic system. Also, the short and long term are chosen as the main criterion of the analysis in the book, which can be challenged in terms of their lack of a clear demarcation in theory.

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Prikaz knjige

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U knjizi pod naslovom: *Introducing Advanced Macroeconomics: Growth and Business Cycles*, autori Peter Birch Sørensen (glavni ekonomista Centralne banke Danske) i Hans Jørgen Whitta-Jacobsen (profesor ekonomije na Univerzitetu u Kopenhagenu), na analitičan i sadržajan način i uz mnoštvo statističkih podataka i primera, razmatraju ključne makroekonomske probleme, vezane za ekonomski rast i ciklične fluktuacije privrede. Kategorijalni aparat i metodološki instrumentarijum primenjen u ovoj knjizi preporučuju je naučnoj i stručnoj javnosti, a može biti korisna i kreatorima ekonomske politike.

Imajući u vidu da savremena makroekonomska teorija u domenu dugoročne analize glavnu pažnju poklanja problemima ekonomskog rasta, a u okviru kratkoročne problemima privrednih ciklusa, autori knjigu organizuju u dve podceline – prvu, koja nosi naslov: *Ekonomski rast, dugoročna nezaposlenost i strukturna ekonomska politika*, i drugu, pod naslovom: *Ekonomske fluktuacije, kratkoročna nezaposlenost i stabilizaciona politika*. Od ukupno sedam delova od kojih se knjiga

sastoji, delovi 1-4 obuhvaćeni su prvom podcelinom, dok su delovi 5-7 obuhvaćeni drugom podcelinom.

U prvom delu: *Osnovni teorijski i empirijski aspekti prosperiteta i ekonomskog rasta* (55-124 str.), autori polaze od osnovne varijante modela R. Solow-a, u kojoj se podrazumeva da je akumulacija kapitala – ljudskog i fizičkog – bazični faktor privrednog rasta. Na logičan način se izlaže uticaj nivoa domaće štednje na dinamiku rasta, kroz “zlatno pravilo štednje”, i ukazuje na tendenciju kretanja privrede ka tzv. stabilnom stanju. Što je konkretna privreda udaljenija od svog stabilnog stanja, to će njene stope ekonomskog rasta biti više, što je osnova hipoteze o tzv. uslovnoj konvergenciji između zemalja. U nastavku prvog dela, autori proširuju analizu na slučaj male otvorene privrede, imajući u vidu da u uslovima globalizacije zemlja može da deo investicija finansira korišćenjem inostranih izvora. Pored pozitivnih aspekata u ovom kontekstu (od kojih se posebno ističe povećanje mobilnosti kapitala), autori ukazuju i na negativne strane, koje se prvenstveno ispoljavaju kroz povećanu osetljivost domaće privrede na globalne ekonomske poremećaje.

Drugi deo, pod naslovom: *Egzogeni privredni rast* (125-212 str.), dodatno približava model R. Solow-a realnim

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uslovima, uključujući uticaj tehnološkog progresa na privredni rast, tako da se modelom može objasniti dugoročni rast bruto domaćeg proizvoda (BDP) *per capita*, nasuprot konstantnim vrednostima koje karakterišu stabilno stanje, objašnjeno u prethodnom delu. Analiza koja sledi uključuje i uticaj ljudskog kapitala na formiranje dugoročne putanje rasta privrede, kao i ograničenja rastu, koja se odnose na oskudnost prirodnih resursa. Na primeru 65 zemalja, autori daju empirijsku potvrdu predviđanja koje pruža ovaj model.

Endogeni privredni rast (213-274 str.) je naslov trećeg dela, u kojem autori prevazilaze ključni nedostatak modela R. Solow-a – uvažavanje pretpostavke o egzogenom privrednom rastu. Endogeni model rasta koji razvijaju temelji se na stavu da je dugoročna stopa rasta, kao zavisna promenljiva, u pozitivnoj korelaciji sa stopom investiranja u fizički i humani kapital, stopom rasta stanovništva i, naročito, stopom investiranja u istraživanje i razvoj. Na taj način, model omogućava analizu uticaja ekonomske politike na dugoročno povećanje dohotka *per capita* preko dejstva na pomenute faktore. Na primeru 65 zemalja u periodu 1960-2000. godine autori dokazuju pozitivnu vezu između prosečne stope investiranja u fizički kapital i prosečne stope rasta realnog BDP-a po radniku.

U četvrtom delu: *Strukturna nezaposlenost* (275-352 str.), autori analiziraju uzroke nezaposlenosti u kratkom i dugom roku: preveliku ponudu rada, rigidnost nadnica u dugom i kratkom roku i mogućnost postojanja tzv. frikcione nezaposlenosti. Poseban naglasak u objašnjenju nezaposlenosti stavljaju na teoriju efikasne nadnice i ulogu radničkih sindikata. Uloga efikasne nadnice analizira se sa mikroekonomskog aspekta, nakon čega se objašnjavaju njene implikacije na nivou cele privrede. Autori dolaze do zaključka, koji je u skladu sa dosadašnjim shvatanjima, po kojem ravnoteža na tržištu rada u modelu efikasne nadnice podrazumeva izvestan procenat nevoljne nezaposlenosti. Na sličan način analiziraju uticaj radničkih sindikata na strukturnu nezaposlenost, dokazujući da je nivo naknada za nezaposlene, kao i tržišna moć aktera na tržištu rada, u pozitivnoj korelaciji sa stopom nezaposlenosti.

U drugoj podcelini, autori razmatraju osnovne činjenice o privrednim ciklusima, njihovo merenje, kao

i načine dekomponovanja gega domaćeg proizvoda. U petom delu: *Grativni elementi kratkoročnog modela* (387-514 str.) objašnjeni su osnovni konstitutivni elementi modela za analizu privrednih ciklusa: 1) investicije i cena imovine, 2) potrošnja, dohodak i bogatstvo, 3) monetarna politika i agregatna tražnja i 4) inflacija, nezaposlenost i agregatna ponuda.

Pomenuti model se primenjuje u šestom delu: *Kratkoročni model za zatvorenu privredu* (515-682). Povlači se jasna linija između konvencionalnog shvatanja privrednih ciklusa i shvatanja teorije realnih privrednih ciklusa. U nastavku, autori analiziraju razloge za sprovođenje stabilizacione politike (prvenstveno negativni uticaj fluktuacija obima proizvodnje i inflacije na društveno blagostanje), i načine na koje se ova politika može sprovesti (diskreciona prava ili pravila, monetarna ili fiskalna politika, itd.), uključujući i ograničenja usled postojanja problema vremenske nekonzistentnosti ekonomske politike. Takođe, autori razmatraju uticaj stabilizacione monetarne politike u uslovima Velike ekonomske krize iz 2007. godine. Primenom stohastičkog modela agregatne ponude i tražnje (AS-AD) sa adaptivnim očekivanjima, koji uključuje šokove na strani ponude i tražnje, dokazuju visok stepen usklađenosti rezultata modela sa statističkim podacima o kretanju američke privrede u periodu 1974-2007. godine.

U poslednjem, sedmom delu: *Kratkoročni model za otvorenu privredu* (683-797 str.), autori u model uključuju probleme mobilnosti kapitala, pariteta kupovne moći i različite režime deviznih kurseva. Dalja analiza se zasniva na dva modaliteta: fiksnom i fluktuirajućem deviznom kursu, koji se uključuju u AS-AD model za otvorenu privredu, ali autori ne pružaju odgovor na pitanje koji režim deviznog kursa je bolji, već ukazuju na nužnost uvažavanja specifičnosti konkretne privrede.

Uključivanje vitalnih elemenata savremene makroekonomske teorije (uticaj očekivanja ekonomskih subjekata na efekte ekonomske politike, koncept prirodne stope nezaposlenosti, endogeni faktori rasta, itd.), kao i koherentnost i interna konzistentnost, čine ovu knjigu aktuelnom i korisnom. Usmerenost analize na empirijska istraživanja i dokazivanje početnih teorijskih postavki predstavljaju vrednu sponu između

teorije i prakse. Međutim, istraživanje ne inkorporira specifičnosti zemalja u razvoju i tranziciji, tako da je primenljivost izvedenih modela ograničena na razvijene zemlje. U tom smislu, i upotreba modela za vođenje stabilizacione ekonomske politike u Srbiji

i obezbeđenje održivog privrednog rasta i razvoja limitirana je karakteristikama njenog privrednog sistema. Takođe, kao glavni kriterijum analize u knjizi uzeti su kratak i dugi rok, što se može osporavati sa aspekta njihovog nedovoljno jasnog razgraničenja u teoriji.

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