Key Concepts and Distinctions
Variables

• Nominal vs. real variables

• Stocks vs. flows
Equilibrium

• Individual vs. community actions

• Comparative statics vs. dynamics
Objects and Issues of Interest

• Interactions between markets vs. concern for an individual market
• Stylized facts vs. unknowns
  – Generalizations can be very helpful!
• Cyclical vs. trend movements
  – What’s the Time Horizon?
    • >5 years (long run, first half of course)
    • <5 years (business cycles, second part of course)
Economic Methodology

• Models consists of *assumptions* and *coefficients*
  – They take *exogenous* (input) variables from outside the model
  – They produce testable predictions about *endogenous* (output) variables
    • Often put these on axes of graphs
  – *Must* go from exogenous inputs to endogenous outputs, not *vice versa*
Graphically

Exogenous Variables → Model (Assumptions, Coefficients) → Endogenous Variables
Methodology, Continued

• The *Value* of a model depends on its purpose
  – Does it solve the problem being asked?
  – Try to choose assumptions appropriately

• *Testing* enables one to validate a model
  – Models, like tools, can’t be right, wrong, or true
  – Models can be useful or unhelpful
  – Models that provide accurate predictions about questions of interest are valuable models