Book Review: Big Ideas in Macroeconomics: A Nontechnical View by Kartik B. Athreya

In this book, Kartik B. Athreya aims to offer a nontechnical description of prominent ideas and models in macroeconomics, arguing for their value as interpretive tools as well as their policy relevance. Anna Grodecka finds that the book has much more to offer those interested in microeconomics and recommends this useful read to economics researchers and students.


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Big Ideas in Macroeconomics, written by Kartik B. Athreya, an economist of the Federal Reserve Bank of Richmond and an associate editor of the prestigious Journal of Economic Dynamics and Control, has unleashed a big online debate about macroeconomics, as the proportions of micro- and macroeconomics in this volume are highly debatable (Paul Krugman writes on his blog about “a recent book that purports to explain the big ideas in macroeconomics, but doesn’t contain any, well, macroeconomics”). Although I would not go so far, I agree with the criticism that this book covers too much in the way of microeconomics. Big Ideas in Macroeconomics is not only a catchy title, it is also a promise and a commitment, and an interested reader will not really find in this volume what the cover is promising. However, that does not mean that the content of the book is not worth reading.

Big Ideas consists of six chapters. The first focuses on the Walrasian equilibrium and the Arrow-Debreu-McKenzie model. Chapters two and three focus on welfare theorems, different aspects of efficiency and price formation. The second part of the book is its heart: Chapter four describes macroeconomic shortcuts, such as aggregation, rational expectations, equilibrium analysis and the use of mathematics. Athreya defends each of these concepts, pointing mainly to the trade-offs faced by macroeconomists. Basically, most simplifications in economic models enable the introduction of more realistic features among other dimensions, perhaps more interesting given the point of study and the research question posed. The usage of mathematics in economic analysis mirrors the need to quantify some of the policy prescriptions, as well as the need for clear language to be used in communication with the public. After all, mathematics has the advantage of being precise and easy to check, unlike vague policy recommendations or models which lack clearly stated assumptions. This chapter makes it clear that the author is a big advocate of modern macroeconomics and his book can be partially treated as a defense of the field.

Chapter five provides an overview of important macroeconomic models, such as the Malthusian model, Solow model, the modern neoclassical growth model, search models, incomplete market models, and overlapping generations models. The last chapter of the book, “Macroeconomic Theory and Recent Events”, gives an overview of research on phenomena that have lead to the recent financial crisis. Athreya formulates three main questions of interests- Why did asset prices rise so much? Why did initial changes get amplified? Why has the recovery been so slow? – and describes some important academic papers that provide answers. In this part of the book, the author covers subjects such as bubbles on asset markets, the ‘too big to fail’ problem, and moral hazards in the banking sector. Concluding, Athreya defines the areas in which he believes macroeconomists have something to say, or have a job to do: they should help society better understand how to redistribute the income in an efficient way; they should help in the valuation of public goods; they should improve people’s understanding of different financial contracts and the time-inconsistency problem faced by the policymakers.
The described chapters clearly touch on some important macroeconomic issues. So, what is all the fuss about? Modern macroeconomics is largely based on microeconomic foundations, but the publication of Athreya’s book proves that the borders between the two fields are more than vague and very disputable. The author devotes a substantial part of the book to the description of the Walrasian general equilibrium framework, welfare theorems, game theory – subjects well-known to anybody familiar with microeconomics. In the Acknowledgements section, Athreya lists books that have inspired his own economic thinking and he starts with microeconomics, enumerating seven books. In comparison, there are only three macroeconomics titles that the author felt had particularly inspired him. Being aware of the highly idiosyncratic choice of the subjects covered in the book, the author advises all those who disagree with his presentation “to write their own book” (p.9).

Athreya suggests that the more advanced the reader is in economics, the more he or she can skip the first part of the book and go directly to the second part. Although it doesn’t use any complicated math, *Big Ideas in Macroeconomics* is not one of the more easily-digested bestseller macroeconomics titles that we see in high street bookshops. The book covers complex subjects and its non-technical language is far from simple, making it an appropriate read for researchers and students already working in and studying the field. Students yet to make their choice between micro- and macroeconomics will certainly appreciate the interdisciplinary character of the book which puts stress on the close relations between the two fields. Economics writers may find the book too demanding and lengthy to read. Readers looking for a broad overview or history of the main macroeconomic ideas such as inflation, unemployment, the growth of output, would be better off looking for a more “standard” macroeconomics book.

Anna Grodecka is a PhD student in macroeconomics at Bonn Graduate School of Economics and a visiting researcher at the LSE. She obtained her Master’s Degree in Finance from Warsaw School of Economics and Johannes Gutenberg University in Mainz. In her research, she focuses mainly on monetary policy, the financial and housing markets, and their role in the recent crisis. Read more reviews by Anna.

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