

Fallacies in Macroeconomics
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Fallacies in Macroeconomics

NOTE: THIS IS PRELIMINARY AND INCOMPLETE. MORE WILL BE ADDED DURING THE COURSE, IN CLASS. BE SURE TO TRANSCRIBE FROM YOUR NOTES TO THE END OF THIS LIST.

1. Fallacy of Partial Forces Causing General Inflation.

a. Examples: inflation blamed on profiteering; labor union demands; "supply shocks" like overpriced oil imports; world inflation; etc.

Rather, inflation results mainly from misregulation of money supply, resulting in oversupply of money. Rising velocity of money is also a factor. "Fighting inflation" is used mainly as an excuse to hold down wage rates, but also to cap rents, oil prices - whatever is politically vulnerable at the time.

b. Rising employment causes inflation

Doesn't it make sense that more jobs mean more production? As people go off welfare into production, their output rises more than their spending.

2. Fallacy of the Immediate Payroll.

Example: fallacy that pouring capital into public works will make jobs. Rather, always demand to know, "Compared to What?" The same capital used in other ways, with faster recovery and reinvestment, will make more jobs.

3. Fallacy of the Black Hole

This comes from ignoring half of Zero sum transactions.

a. Buying land or other existing asset aborts saving. [The other half is that selling land or other existing asset frees up funds for investing.]

b. Saving lowers aggregate spending. [This black hole used to called the Infinite Liquidity Trap.]

c. Public spending gives the economy net fiscal stimulus (where does the public money come from?).

4. Fallacy of the Oxymoron

Example: "Unemployment continues to rise, although the recession has ended."

5. Import-competing firms are nonbasic and parasitic.

6. Maximizing GNP or local or state GP is the objective of economic policy.

7. Fallacy of composition

A. Downsizing labor forces raises the average product of labor in a firm. Therefore, if all firms shed workers, national productivity will rise.

B. If industry produces more cars, their prices will fall in terms of other goods. Therefore, if all industries produce more of everything, all prices will fall. (Actually, they will fall in terms of land and labor, which are fixed.)

C.

8.

TO BE EXTENDED