

INTRODUCTORY MACROECONOMICS

**UNIT
1**

National Income & Related Aggregates (part-1)



विद्या दृष्टि

The Vision Of Education

CLASSES AVAILABLE :-

6th to 10th

◆ Maths ◆ Science ◆ English ◆ Sst

11th & 12th

◆ Pol. Science ◆ History

◆ Economics ◆ Accounts ◆ Maths ◆ English ◆ sociology



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Macroeconomics



👉 origin

- ◆ Greek term - Makros
- ◆ English term - Macro

— — Large
(Economy as a whole)

👉 Branch of economics

◆ Study of economic issues or economic problems at the level of Whole economy.

👉 Examples :-

- ◆ Employment
- ◆ Growth of output in the economy
- ◆ Inflation — Price rise
- ◆ Depression — Lack of demand

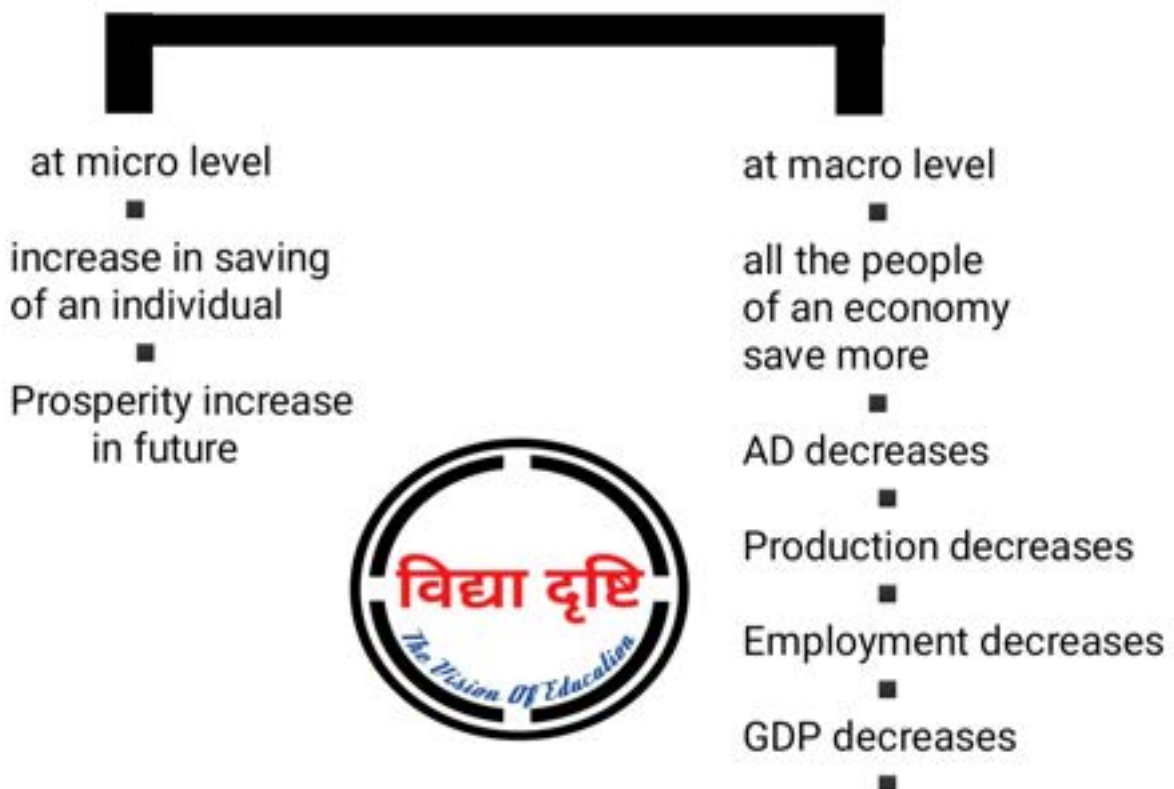
| Basis of Difference | Macro-economics | Micro-economics |
|---|---|---|
| Level of study | Economy as a whole | An Individual <ul style="list-style-type: none"> ◆ Household ◆ Firm ◆ Industry |
| Economic variable | Macroeconomic Variable <ul style="list-style-type: none"> ◆ Aggregate demand (AD) ◆ Aggregate supply (AS) | Microeconomic variable <ul style="list-style-type: none"> ◆ Consumer demand ◆ Producer's Supply |
| Economic Agent ▲ Who takes economic decisions | Institutional economic agents <ul style="list-style-type: none"> ◆ RBI ◆ SEBI ◆ TRAI | Individual economic agent <ul style="list-style-type: none"> ◆ Consumer ◆ Producer |
| Degree of Aggregation | Sufficient degree of Aggregation <ul style="list-style-type: none"> ◆ Studies equilibrium of all economic units in the economy | Limited <ul style="list-style-type: none"> ◆ Studies equilibrium of an industry |

| | | |
|------------------------|---|--|
| Central Problem | Determination of the overall level of output & employment | Allocation of resources |
| Method of Study | General Equilibrium analysis | Partial Equilibrium analysis |
| Assumption | Micro variables constant ◆ Distribution of Income | Macro variables constant ◆ Total output ◆ Employment |

Micro - Macro Paradox

👉 The facts which are logical at the micro level may not be logical at the macro level.

👉 Example :- Saving



The economy will be driven towards poverty in future rather than prosperity.

Area / Region of Macroeconomics

(1) Concept of National Income & method of estimation of national Income

- ◆ Definition of national Income
- ◆ estimation of national Income
- ◆ Related aggregates.

(2) Theory of employment

- ◆ Given or proposed by keyns
- ◆ Cause of unemployment
- ◆ Solution of unemployment

(3) Theory of money

- ◆ creation of money or credit by commercial banks
- ◆ Regulation of money supply by RBI

(4) Role of the government or Government Budget

- ◆ Impact of budget on the level of economic activities.

(5) Exchange rate and Balance of payment

- ◆ Determination of exchange rate
- ◆ Exchange rate system

(6) Theory of general price level

- ◆ Inflationary gaps or Deflationary gaps
- ◆ Trend of change in price



Conclusion :- Objective of macroeconomics is maximising social welfare. For this it focuses on Such issues which explain —

- 👉 How an economy functions
- 👉 How can it be regulated

Significance of Macroeconomics

(1) Description of the Economy

- ◆ Estimation of national income tell us about the nature and level of economic activity in the economy.
- ◆ Study of unemployment reveals the magnitude of the problem and the way it can be handled.
- ◆ Government budget clarify the way economy is regulated by government & the impact of government on economy.

(2) Economic stability

- ◆ It helps to achieve economic stability.
- ◆ Economic stability is achieved through
 - (a) fiscal policy of government
 - (b) monetary policy of RBI

(3) BOP Status

- ◆ Balance of payment tell us the performance of our economy with respect to rest of the world.
- ◆ BOP shows our capacity to export & dependency on import.

(4) Policy framing

- ◆ Roadmap of growth & development are made by government on the basis of information related to macro variable like — AD, AS, Total Consumption, Total Investment

(5) Problem of poverty & environmental pollution

- ◆ These problems are being solved by using macro models.

Economic Agent

👉 The **peoples or institutions** who takes economic decision are called economic agent.

👉 Economic decision makers are following :-

(1) Micro level

- ◆ Consumer
- ◆ Producer

(2) Macro level

- ◆ Government
- ◆ Corporation
- ◆ Bank



Two general characteristics of Macroeconomics

- Economic agents state itself or statutory body.
- The economic objective is the Welfare of the people.

Entrepreneur

👉 People who make economic decisions and carry the risks associated with them.

👉 They make production activity possible with the help of other factor of production like labour, land & Capital.

Capitalist Economy

👉 An economy in which most of the economic activities have the following characteristics

- Private ownership of the means of production.
- Production only to sell the output in the market.
- Sale & purchase of labour Services at a fixed rate (Wages rate).

| Partial Equilibrium | General Equilibrium |
|--|---|
| <ul style="list-style-type: none"> ◆ Equilibrium of one market ◆ Based on the assumption that there is no change in other markets ◆ method of study of microeconomics | <ul style="list-style-type: none"> ◆ The equilibrium of all markets Collectively ◆ Based on the assumption that different markets Change ◆ method of study of macroeconomics |

Macroeconomic Variable

◆ Those economic variables that are **studied at the level of the entire economy**, are called macro variables.

- (a) Level of employment in Economy
- (b) National Income
- (c) Aggregate demand / Aggregate Supply
- (d) Consumption expenditure in whole economy
- (e) Investment expenditure in whole economy



Origin of Macroeconomics

👉 **John Maynard Keynes** —

"The general theory of employment interest & money"

"Economic consequence of the peace"

👉 **The great depression of 1929** led to a Sharp decline in the level of output and employment in countries of Europe and North America.

👉 Between 1929-33 the unemployment rate in the us increased from 3% to 25% while output declined by about 33%.

👉 These developments prompted economists to think about the various process of economy in a new way.

👉 **Thus, macro economics emerged as a new branch of economics to examine the working of the economy and the interdependence of different sectors.**

ADAM SMITH

- 👉 Father of modern economics.
- 👉 Great thinker of political economics.
- 👉 **Writer :-** "An enquiry into the nature and cause of the wealth of nations"

👉 **main suggestion :-**

◆ If buyers and sellers in each market make decisions Keeping in mind their personal interests, then economists will not have to think separately about the wealth and welfare of the country as a whole.

Classical tradition of Economics

- (a) All the workers who are willing to work will get work and,
- (b) All the factories will continue to function at their full capacity.

👉 The above two set of ideas are known as the classic tradition of economics.

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