



An Introduction to Macroeconomics

BIM 5th Sem

St. Xavier's College

Meaning of Macroeconomics

- **Macroeconomics** is the study of the economy as a whole. It deals with the functioning of an economy as a whole. It is concerned with the nature, relationship and behavior of such aggregate quantities and averages such as national income, total consumption, savings, investment, total employment, general price level, aggregate expenditure and aggregate supply of goods and services.
- According to Lipsey, *"Macroeconomics is the study of the determination of economic aggregate and averages, such as total output, total employment, the general price level, the rate of economic growth."*

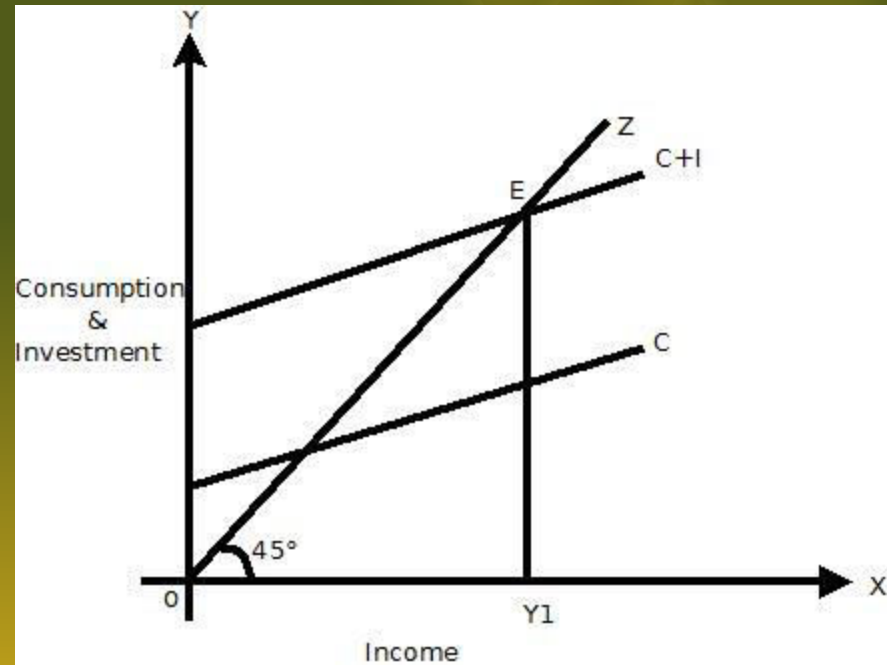
Scope of Macroeconomics

- THEORY OF INCOME AND EMPLOYMENT
- MACRO THEORY OF DISTRIBUTION
- THEORIES OF INTERNATIONAL TRADE AND BUSINESS
- FLUCTUATIONSTHEORY OF MONEY AND PRICE LEVEL
- THEORY OF ECONOMIC GROWTH
- MACROECONOMIC POLICIES

Types of Macroeconomics

1. Simple Macro statics:

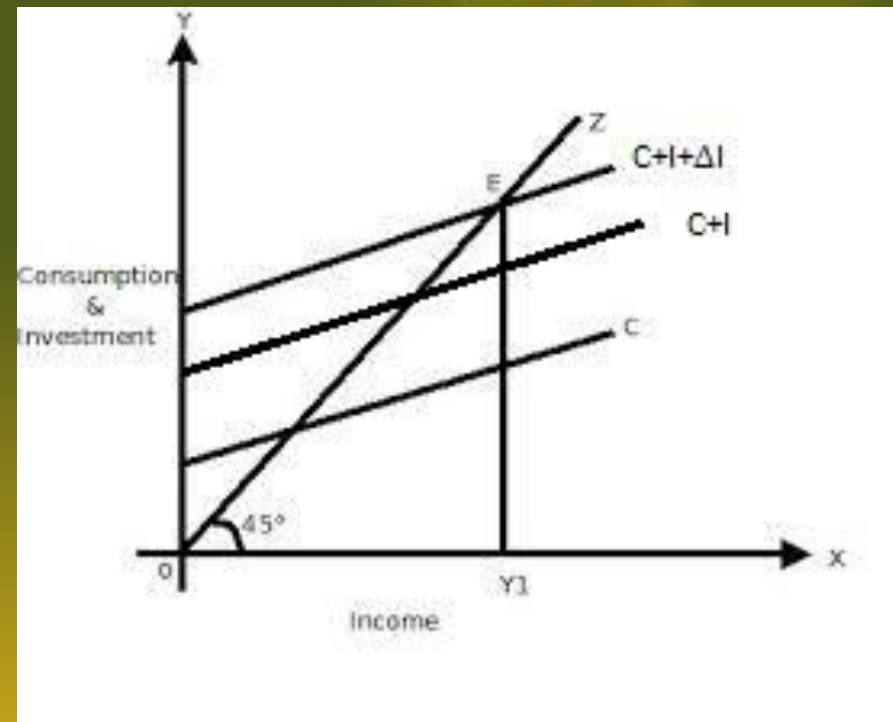
It studies relationships between macroeconomic variables in a stationary situation, which is concerned with equilibrium points. It does not deal with the process through which it attains equilibrium. For example, the position of final equilibrium can be shown by the keynesian equation.



Types of Macroeconomics

2. Comparative Macro statics:

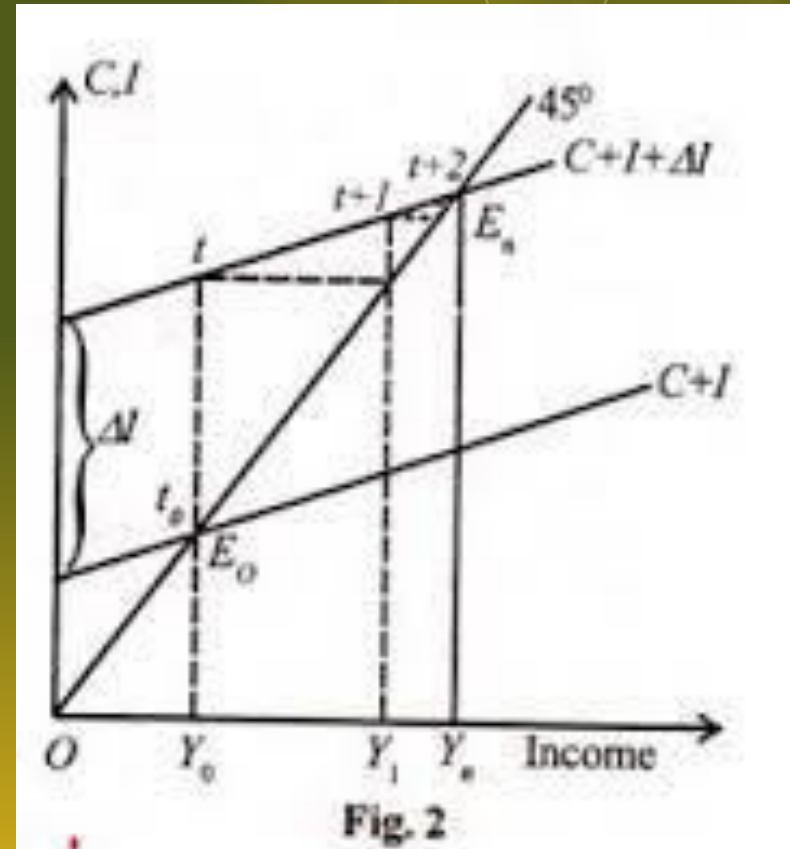
It involves a comparative study of different macro-static equilibrium positions which are attained by the economy. It does not study the process of adjustment by which the economy shifts from one equilibrium position to another.



Types of Macroeconomics

3. Macro dynamics:

It studies lagged relationships between the macroeconomic variables. It explains the process through which a new equilibrium is established after a change in independent variables.



Uses of Macroeconomics

- To understand the working of the economy.
- Formulation of Economic Policies.
- Business Decisions
 - To study the business environment
 - To study the trends of international business
 - To examine nature and extent of externalities of business
- Economic Planning
- Development of Microeconomic Theories
- International Comparisons

Limitations of Macroeconomics

- Complication in finding out the total national income
- Aggregates which are non homogenous can mislead results
- An aggregative change may not influence all the sectors of the economy.