



B.A. 3RD SEMESTER MACRO ECONOMICS

By

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1. Nature & Scope of Macro Economics

- Macro economics is the study of the aggregate behaviour of the economy as a whole.
- It is concerned with the macro economic problems such workshop as the growth of output and employment, national income, the rates of inflation, the balance of payments, exchange rates, trade cycles, etc.
- In this study we examine the interrelationships and interaction among various aggregate s, their determinants and causation.

Definitions of Macroeconomics

- According to Prof Ackley, “ Macroeconomics deals with Economic affairs ‘in the large,’ it concerns the overall dimensions of economic life. “
- In short, macroeconomics deals with the major Economic issues, problems and policies of the present times.
- Macroeconomics is the sstudy of the major Economic” aggregates” or totals.

Keynesian Revolution

- Prof. J. M. Keynes, “ **The General theory of employment, interest and money,**”
- Suggested macroeconomic behaviour should be studied separately.
- Keynes prescribed macroeconomics as a policy- oriented science to deal with the problems like unemployment, inflation etc.
- Keynes economics serves as the foundation centre for the modern economicdm
- The subject matter of Macroeconomics include the theory of Income, and unemployment, theory of money and banking, theory of trade and economic growth.

Macro Concepts

- **Macro. Economic concepts**

- **1 National Income:** The total income of the nation. National income has been interpreted in three ways : 1) National product 2) National dividend 3) national expenditure.
- 1) National Product: It consists of all the goods and services produced by the community and exchanged for money during a year.
- 2). National Dividend: It consists of all the incomes, in cash , kind, accruing to the factors of production in the course of generating the national product.
- 3) National Expenditure: This represent the total spending or. Outlay of the community on the goods ,& , services produced during a given year.

Concept of Employment

- Employment of factor” refers to its use in the process of production. Employment of labour is an important macroeconomics variable. In relation of labour, therefore, usually, the term “employment” refers to the employment of worker. A worker is said to be employed when he is engaged in an act of production.
- According to A. K. Sen, there are three important aspects of employment: (I) the income aspects (ii) the production aspect, and (iii) the recognition aspect
- i) The income aspect indicated that employment of a worker yields an income to him, that is, when a worker sell his labour services for a wage, he is accepting employment in exchange for some earnings.
- li) the production aspect of employment suggests that the employment leads to generation of output. When a worker is gainfully employed, he must contribute to the increase of GNP.
- lii) the recognition aspect of employment implies that employment gives a worker the recognition of being engaged in some occupation which make hislife worth living.

- 3. Consumption: it refers to total consumption of of the household sector.
- 4. Savings: in macroeconomics, savings refers to savings of the community of economy as a whole.
- Savings = Total income – Total consumption
- Total savings = Savings of households -. Savings of firms or
- . Corporate savings + Savings of the government sector.
- 5. Investment: Investment refers to total investment of the firm. Investment of the private sector is induced.
- 6. Government Expenditure: Government sector spends on consumption and investment. Public sector investment is autonomous.
- Households: Household sector includes all consuming individual units.
- 7. Firms: The firm sector includes all producing entrepreneurial units.

- 9. Economic Sector: The entire economy is sometimes divided into four sectors:
 - A) Primary sector: Agriculture & Allied activities.
 - B) Secondary sector: Industries and Manufacturing activities.
 - C) Tertiary : Services, such as professions, banking, trade etc. activities.
 - D,) Foreign or External: This refers to rest of the world as sector confined to international trade and transactions.
- 10. Price Level: Prices of goods in general. Price level is statistically measured through price index number.
- 11. Aggregate demand: Demand for all goods and services taken together.
- 12. Aggregate Supply: supply of all goods and services in general.

Macro Economic Theories

- Macroeconomic Theories provide explanation to inter-relationship and causation among different macroeconomic variables and the associated problems.
- **There are number of macroeconomic Theories.** These are... .
 1. Theory of Income and employment--- classical and Keynesian.
 - 2. Theories of Trade cycles--**
 - A) Pure monetary theory of trade cycles.
 - B) Monetary over investment theory.
 - C) Non- monetary over - investment theory.
 - D) Under- consumption theory.
 - E) psychological theory.
 - F) Innovation theory.
 - G) Keynes's marginal efficiency theory.
 - H) Hicks theory of trade cycles.

- 3. Theories of economic growth, e. g. Theory of big- push.
- 4. Theories of inflation, e. g. Phillips curve hypothesis.
- 5. Theory of fiscal policy, e. g. Theory of balanced budget multiple.
- 6. Theory of monetary policy, e. g., Quantity theory of money- monetarism.

5. Macro policies

- Prof. Dernberg , “ Macroeconomics is first and foremost apolicy science.”
- Macroeconomics is a policy oriented subject. It deals with the number of poliicies of macro nature to solve many issues & problems.
- Macroeconomic goals are:
 1. Price stability.
 2. Economic stability.
 3. Exchsng Rate stability.
 4. Attainment and maintenance of full employment.
 5. Economic growth.
 6. Economic justice.
 7. Improvement of common standard of living.
 8. Eradication of poverty.

6. Macroeconomic Paradox

1. Macroeconomic variables- aggregates are regarded as Homogeneous whole despite internal homogeneity.
2. Macroeconomic behaviour involves Fallacy of Aggregation
3. Macroeconomics is concerned with general economic welfare.

Importance of Macroeconomic studies

1. Macroeconomics provides an Explanation to the functioning of an economy in general.
2. Empirical - Orientation.
3. Policy orientation
4. National income.
5. Income & Employment theory and Monetary theory.
6. Dynamic science.

THANK YOU