

## Introduction

The term 'Macro' in English language has its origin in the Greek language term 'Macros' which means 'Large'. Macro economics, therefore, studies economic problems from the point of view of entire economy. E.g. aggregate consumption, aggregate employment, national income, general price-level, etc.

Whereas microeconomics deals with the analysis of small individual units of an economy such as individual consumers, individual firms, individual industries and markets and explains how prices of products and factors are determined.

On the basis of these prices microeconomics explains how resources are allocated among various products and how income distribution among factors is determined.

On the other hand, macroeconomics is concerned with the analysis of the behaviour of the economic system in totality.

Macroeconomics is a part of economic study which analyzes the economy as a whole. It is the average of the entire economy and does not study any individual unit or a firm. It studies the national income, total employment, aggregate demand and supply etc.

It is that part of economic theory which studies the economy in its totality or as a whole.

It studies not individual economic units like a household, a firm or an industry but the whole economic system. Macroeconomics is the study of aggregates and averages of the entire economy.

Such aggregates are national income, total employment, aggregate savings and investment, aggregate demand, aggregate supply general price level, etc.

In short, macroeconomics is the study of national aggregates or economy-wide aggregates. In a way it is like study of economic forest as distinguished from trees that comprise the forest. Main tools of its analysis are aggregate demand and aggregate supply.

Since the subject matter of macroeconomics revolves around determination of the level of income and employment, therefore, it is also known as 'Theory of Income and Employment.'

In the words of **Boulding**, "Macro economics theory is that part of economics which studies the overall averages and aggregates of the system."

According to **Shapiro**, "Macro economics deals with the functioning of the economy as a whole."

## Nature of Macroeconomics

Macroeconomics is basically known as theory of income. It is concerned with the problems of economic fluctuations, unemployment, inflation or deflation and economic growth. It deals with the aggregates of all quantities not with individual price levels or outputs but with national output.

1. **Short-run nature of macroeconomics:** Macroeconomics is a short run study. Short-run refers to that time period in which production cannot be increased by installing new plants or new machinery or by changing the technique of production. It lays emphasis on those problems which are keenly felt under the existing circumstances.
2. **Study of the Whole Economy:** Macroeconomics is a part of economic study which analyzes the economy as a whole. It studies the national income, total employment, aggregate demand, aggregate supply, price level, etc. It does not study the income of an individual, or the price of a commodity, wage of a laborer, production of a firm, etc.
3. **Macroeconomics is a comprehensive study** of all conditions. It studies all conditions of inflation and deflation, boom and depression, full employment and under employment.
4. **Macroeconomics aims at reforming** and not destroying capitalism. Different laws of macroeconomics are based on different features of capitalism like private property, freedom of choice, profit motive and price mechanism.
5. **Macroeconomics- A Monetary Economics:** Macroeconomics has given due importance to monetary factors. According to Macroeconomics, changes in demand for and supply of money have significant effect on the determination of income and employment.
6. **Macroeconomics is institutional in nature.** Macroeconomics is more real and practical. It serves as a guide to the politicians and economists all over the world. To comprehend microeconomics, we must keep in view its psychological and institutional factors.
7. **Importance of State Intervention:** Macroeconomics has laid great stress on the role of state intervention in economic sphere. In order to make up the shortfall in private investment, public investment is regarded most desirable. State is like a balancing factor.
8. **The Crucial Role of Investment:** In macroeconomics, a very important role is assigned to investment. Investment means addition to the stock of goods and creation of new capital assets.
9. **A more realistic approach:** Although Macro Economics is difficult to study and is complicated, yet it tends to be more realistic because the entire economy is taken into consideration and thus helps in Policy decision taking.

# **Scope of Macroeconomics**

## **1. Determination of National Income**

- Macroeconomics studies the concept of national income.
- Macroeconomics studies different elements and methods of measurement of national income.

## **2. Determination of General Price Level**

- Macroeconomics studies the determination and changes in general level of price in an economy.
- It also studies the problem of inflation or general rise in prices and deflation or general fall in prices.

## **3. Economic Growth and Development**

- Macroeconomics deals with problems relating to economic growth and development or increase in per capita real income.
- It studies various factors that contribute to growth and development of under-developed economies.
- Monetary and fiscal policies of the government are also studies in macroeconomics.

## **4. Theory of Employment**

- Macroeconomics also studies problems relating to employment and unemployment.
- It studies various factors determining the level of employment i.e. effective demand, aggregate supply, aggregate consumption, aggregate investment, multiplier, etc.

## **5. Theory of Money**

- Macroeconomics studies changes in demand for, and supply of money which have considerable effects on the level of employment.
- Banks and other financial institutions are also part of its study.

## **6. Theory of International Trade**

- Macroeconomics also studies trade among different countries.
- Theory of international trade, tariff, protection, etc., is subjects of great significance to macroeconomics.