Short Notes on Macroeconomics

Introduction to Macroeconomics

Key Concepts

- Definition: Macroeconomics studies aggregate economic behavior, focusing on national income, total investment, consumption, and saving.
- Importance:
  - Understanding business environment fluctuations (income, prices, output).
  - Analyzing international business trends (exchange rates, trade balances).

National Income

- Definition: The net value of final goods and services produced by a country's residents in a year.
- Measurement Methods:
  1. Product Method: Sum of final goods and services.
  2. Income Method: Sum of wages, rent, interest, and profit.

3. Expenditure Method: Sum of consumption (C), investment (I), and government spending (G).
- Excluded Items:
  - Secondhand goods, illegal activities, transfer payments (pensions, scholarships).

Inflation

- Definition: Rise in general price levels due to aggregate demand exceeding aggregate supply.
- Types:
  1. Creeping Inflation: Gradual price rise, encouraging investment.
  2. Running Inflation: Prices rise 8-10% annually, reducing savings.
  3. Hyperinflation: Double/triple-digit inflation rates, loss of monetary control.
- Causes:
  - Demand-Pull Inflation: Aggregate demand exceeds supply.
  - Cost-Push Inflation: Increased production costs (wages, profit margins).

Unemployment

- Definition: Active job seekers unable to find work.
- Types:
  1. Disguised: More workers than needed (common in agriculture).
  2. Structural: Mismatch of skills and job availability.
  3. Seasonal: Employment depends on the season.
  4. Vulnerable: Informal employment without contracts.
  5. Technological: Job loss due to automation.
  6. Cyclical: Unemployment due to economic downturns.
  7. Frictional: Short-term unemployment during job transitions.

Circular Flow of Income

- Definition: Continuous flow of national income and expenditure.
- Models:
  1. Two-Sector: Households and firms; income = expenditure = output.
  2. Three-Sector: Adds government, with taxes and transfer payments.
  3. Four-Sector: Includes rest of the world, incorporating trade and capital markets.

Economic Equilibrium

- Achieved when total income equals total expenditure and output, ensuring a stable circular flow.

Example: In a two-sector model, households spend their income on goods, which becomes income for firms. Firms use this income to pay for resources, creating a continuous flow.