Overview of macroeconomics

Macroeconomics

- It is the study of the behavior of the economy as a whole.It examines the forces that affect firms, consumers and workers in the aggregate.
- The development of macroeconomics was one of the major breakthrough of twentieth-century economics,leading to a much better understanding of how to combat periodic economic crises and how to stimulate long term economic growth.
- In response to the Great depression, john Maynard Keynes developed his revolutionary theory, which helped explain the forces producing economic fluctuations and suggested how governments can control the business cycle.

Major objectives or goals of macroeconomics

- Output-:high level and rapid growth of output.
- Employment: High level of employment with low involuntary unemployment.
- Stable prices

Measuring economic success

- **1.Output**: The ultimate objective of economic activity is to provide the goods and services that the population desires. What could be more important for an economy than to produce ample shelter,food,education and recreation for its people?
- The most comprehensive measure of the total output in an economy is the gross domestic product(GDP).GDP is the measure of the market value of all final goods and services produced in a country during a year. There are two ways of measuring GDP.Nominal GDP is measured in actual market prices. Real GDP is calculated in constant prices.

- **2.Employment:** Of all the macroeconomic indicators, employment and unemployment are most directly felt by individuals. People want to be able to get high-paying jobs without searching or waiting too long and they want to have job security and good benefits.In macroeconomic terms, these are the objectives of high employment, which is the counterpart of low unemployment.

- **3.Price stability:** The third macroeconomic objective is price stability.This is defined as a low and stable inflation rate.To track prices, government statisticians construct price indexes or measures of the overall price level.An important example is the Consumer Price Index(CPI) which measures the trend in the average price of goods and services bought by consumers. Economists measure price stability by looking at inflation or the rate of inflation.The inflation rate is the percentage change in the overall level of prices from one year to the next.

Instruments/tools of macroeconomics

- Fiscal policy
- Monetary policy

Fiscal policy

- Fiscal policy denotes the use of taxes and government expenditures.Government expenditures come in two distinct forms.First there are government purchases.These comprise spending on goods and services-construction of roads, salaries and so forth.In addition, there are government transfer payments which increase the incomes of targeted groups such as the elderly or unemployed.

- Government spending determines the relative size of the public and private sectors, that is ,how much of our GDP is consumed collectively rather than privately.From a macroeconomic perspective, government expenditures also affect the overall level of spending in the economy and thereby influence the level of GDP. The other part of fiscal policy is taxation which affects the overall economy in two ways.

- To begin with, taxes affect people’s income.By leaving households with more or less disposable or spendable income, taxes affect the amount of people spend on goods and services as well as the amount of private saving.In addition, taxes affect the prices of goods and factors of production .

Monetary policy

- The second major instrument of macroeconomic policy is monetary policy which the government conducts through managing the nation's money, credit and banking system. The central bank is the key macroeconomic institution for formulating and implementing monetary policy.It also determines the short-run interest rate.

Aggregate demand and supply

- The central concepts for understanding the determination of national output and the price level are aggregate supply and aggregate demand. Aggregate demand consists of the total spending in an economy by households, businesses,governments and foreigners.It represents the total output that would be willingly bought at each price level, given the monetary and fiscal policies and other factors affecting the demand.Aggregate supply describes how much output businesses would willingly produce and sell given prices,costs and market conditions.