

# Micro- and Macroeconomics

## BMEGT30A001

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**Available:** on request via mail, QA224.

**Material** (ppt presentation + text) available on moodle from week to week

**Signature** : On-line test on the 7th week in the time slot of the lecture 50%Micro+50%Macro

**Offered grade:** online test on the 14th week 50%Micro+50%Macro

# MACRO(ECONOMICS)

**AIM:** understand the workings of the **economy** in which we live

economy=economic system:  
system that determines the accumulation  
of wealth



UNDERSTAND THE WORKINGS OF THE SYSTEM THAT  
DETERMINES THE ACCUMULATION OF WEALTH IN WHICH WE LIVE



A. Smith (1776):  
*An Inquiry into the Nature and Causes of  
the Wealth of Nations*

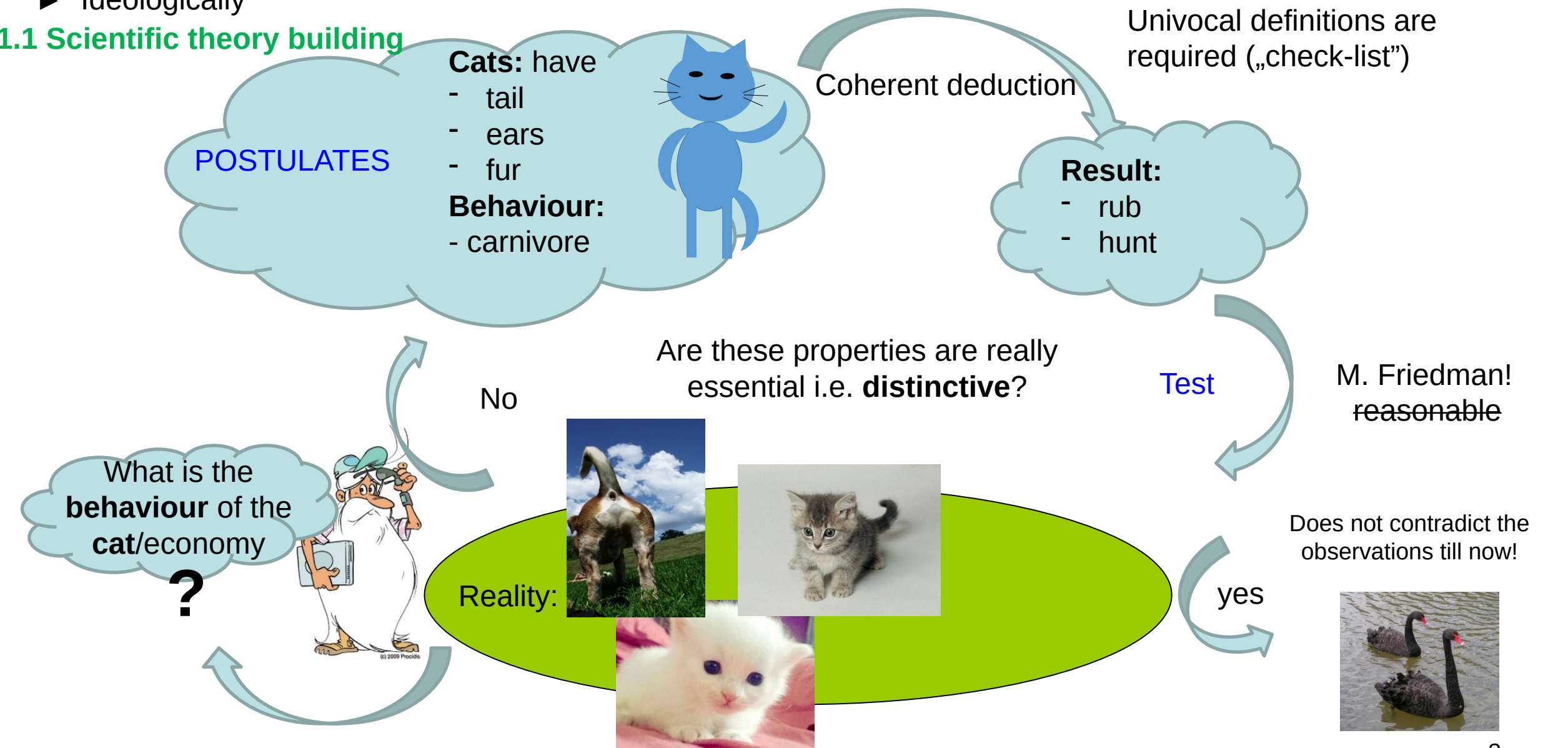
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**Understand** the workings of the system that determines the accumulation of wealth in which we live

1. WAYS OF THEORIZING

- Scientifically
- Ideologically

1.1 Scientific theory building

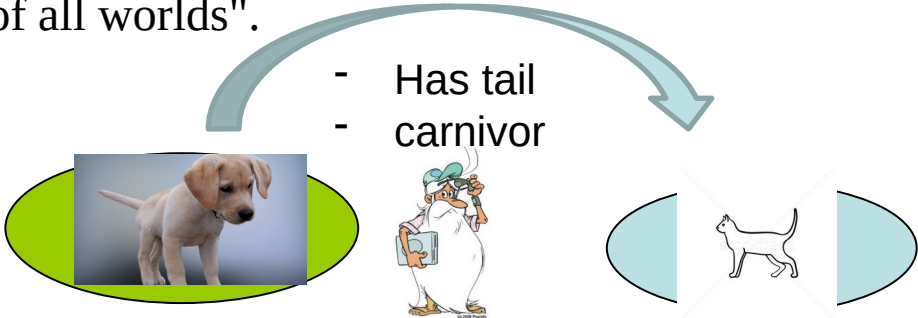


# 1.2 Ideology driven theorizing

„The ruling ideas of EACH AGE have ever been the ideas of its ruling class” (The Communist Manifesto, 1848)

Ideology: the explanation of the winners of the system as to why it is the "best of all worlds".

The system is fair and efficient



- Has tail
- carnivor

Feudalism

Capitalism

Socialism

Prevailing idea: religion

Liberalism

Communism

~~GOD~~

Purchase on market: **MONEY**

CENTRAL PLANNING BUREAU

Subordination by the force of human law

SOCIAL REFORM PROPOSAL

orchestrates the functioning of the socio-economic system with clockwork precision

end injustice

WHAT IS FREE MARKET?

abolition of nobility  
uniform people citizen

abolition of capitalists  
uniform people proletarian



*The universe that ~~GOD~~ chose to exist is the best of all possible worlds, otherwise it would have been unreasonable for God to create it.*  
(Leibnitz, 1710)

the LIBERALISTS

the COMMUNISTS

*chose to exist is the best of all possible worlds ...*

We have the cure and the systemic characteristics without economic theory.

Then what for economic theory?

Understand the workings of the system that determines the **accumulation of wealth** in which we live

## 2. MINIMAL POSTULATES FOR THE STUDY OF WEALTH ACCUMULATION

- ▶ Postulate on individual and social wealth (what is wealth?)
- ▶ Postulate on the ways of wealth accumulation

### 2.1 Nature of individual and social wealth

**Social wealth =  $\Sigma$  individual wealth**

#### 2.1.1 Value theories / real analysis

*wealthy = has many valuable possessions*

**valuable = exchangeable**

↔ You want it + You can only get it by giving something else to another person.

because it satisfies  
some human needs =

**useful**

because you cannot have it  
free

= **scarce**

*wealthy = has many useful things = **commodity (good)***

**both individual and social wealth are manifested in goods**

**THUS INDIVIDUAL AND SOCIAL WEALTH ARE IDENTICAL IN NATURE (commodity)**

## 2.1.2 Accounting approaches / monetary analysis

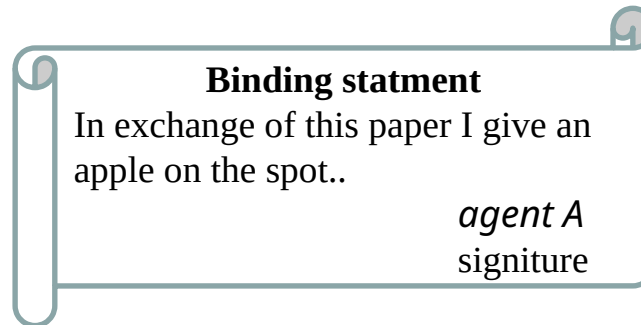
*wealth = (has many valuable possessions + claims – debts) expressed in monetary terms*

**Valuable** = has positive price in terms of money



**Individual wealth** at time  $t-1$  is the maximum amount of money that this individual can expect to spend in period  $t$ , *ceteris paribus*, after fulfilling all his contractual obligations relating to wealth and without engaging in any activity that affects his wealth (i.e. this **capacity to spend money**).

We call the same binding statement in the *contractual obligations relating to wealth* a **financial asset** for the holder of the statement and a **financial liability** for the issuer.

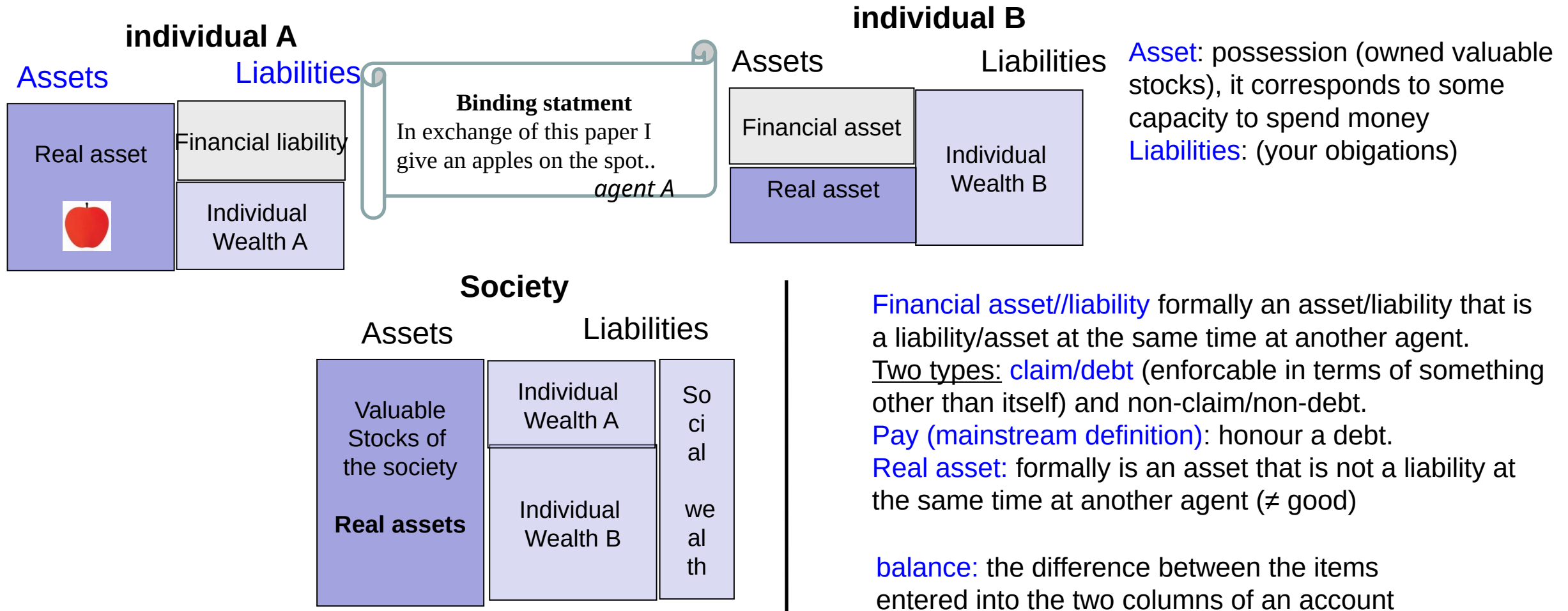


**Face value**: quantity specified in the binding statement

All other possessions of an individual that are not financial assets (i.e. do not arise from a contractual relationship) are called **real assets**.



## 2.1.2



THUS INDIVIDUAL AND SOCIAL WEALTH IS OF  
 DIFFERENT NATURE  
 financial assets disappear during social aggregation

Financial asset//liability formally an asset/liability that is a liability/asset at the same time at another agent.

Two types: claim/debt (enforcable in terms of something other than itself) and non-claim/non-debt.

Pay (mainstream definition): honour a debt.

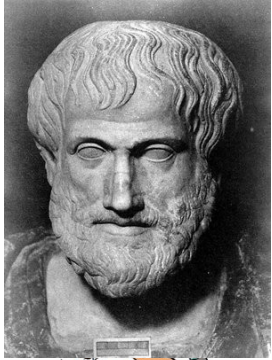
Real asset: formally is an asset that is not a liability at the same time at another agent ( $\neq$  good)

balance: the difference between the items entered into the two columns of an account

The two column register on the magnitude and structure of wealth (**balance sheet**) or on the variation of these magnitudes expressed in a common unit of account is called **account**.

## 2.2 Basic behaviors that drive decisions about wealth

**Aristotle:** 2 major behaviors (logic/driving force) that drive individual decisions about wealth



**OIKONOMIA** : decision about wealth for the purpose of satisfying human needs

**commodity transformation** for the purpose of satisfying human needs:  $C-(M)-C'$ .

Essence:  $C-C'$

- Money is inessential;
- Relative prices ( $C/C'$ )

**use of money for satisfaction of human needs**



**CRHMATISTIKÉ**: the use of monetary wealth for the purpose of accumulating more monetary wealth (money proliferation)

**spending money to acquire more money:**

$M-(C-C')-M'$

**production**

$M-(C-C')-M'$

**trade**

$M-(C)-M'$

**loan**

$M-M'$

- Money is essential;
- Absolut prices ( $M/C$ )



## 2.3 The primary classification of theories on social wealth accumulation

PRIMARY CLASSIFICATION OF ECONOMIC THEORIES AS IMPLIED BY ADAM SMITH'S DEFINITION OF ECONOMICS		BEHAVIORS THAT DRIVE INDIVIDUAL DECISIONS ABOUT WEALTH		
		oikonomia	khrematistiké	
NATURE OF INDIVIDUAL AND SOCIAL WEALTH	identical	Orthodoxy	Marxian heterodoxy	<i>real analysis</i>
	different	Keynesian heterodoxy	Full heterodoxy	<i>accounting approach</i>

After Adam Smith, the postulate of oikonomia became the dominant one, so the science of wealth accumulation was christened *economics*.

**Mainstream** is a synonym for dominant, which is a loose, non-scientific term.

**Mikroeconomics** study of individual wealth accumulation in orthodox framework

**Makroeconomics** study of social wealth accumulation (by postulating oikonomia + almost exclusively in orthodox framework)