Concepts and Problems in Macroeconomics

Macroeconomics is a part of our everyday lives. If the macroeconomy is doing well, few people do not have jobs who want one, people's incomes are generally rising, and profits of corporations are generally high.

Whereas microeconomics focuses on the factors that influence the production of particular products and the behavior of individual industries, macroeconomics focuses on the determinants of total national output. Macroeconomics is concerned with the sum, or aggregate of industries' performance, including the consumption of all households in the economy, the amount of labor supplied and demanded by all individuals and firms, and the total amount of all goods and services produced.

Macroeconomics was born out of the effort to explain the Great Depression of the 1930s. Since that time, the discipline has evolved, concerning itself with new issues as the problems facing the economy have changed. Through the late 1960s, it was believed that government could "fine-tune" the economy to keep it running on an even keel at all times. The poor economic performance of the 1970s, however, showed that fine-tuning does not always work.

There are three very important macroeconomic concerns. These include the following:

- **Inflation:** An increase in the overall price level
- **Output growth:** The short-term ups and downs in the economy
- **Unemployment:** The percent of the labor force that is unemployed

Macroeconomics is concerned with both long-run trends and with short-run fluctuations in economic performance. Since 1970, the U.S. has seen three recessions and large fluctuations in the rate of inflation.

Gross domestic product (GDP) is the key concept in the national income and product accounts. It is the total market value of a country's output, the market value of all final goods and services produced within a given period of time by factors of production located within a country.

There are other useful concepts besides GDP:

- Gross national product (GNP), GDP plus factor income earned by U.S. citizens from the rest of the world and subtracting factor income earned in the United States by foreigners.
- NNP or net national product, which is GNP less depreciation.

- National income (NI), which is NNP less indirect business taxes plus subsidies.
- Personal income (PI), which is the total income of households, and is found by taking NI and subtracting corporate profits minus dividends and social insurance payments, and then adding personal interest income from the government and consumers and transfer payments made to persons.
- Disposable personal income, which is PI after personal income taxes are paid.

An ideal economy is one in which there is rapid growth of output per worker, low unemployment, and low inflation. However, there can be times of slow growth, high unemployment, and high inflation. Several macroeconomic concerns include the following:

- A *recession*, which is a period where real GDP declines for at least two consecutive quarters.
- A *depression*, which is a prolonged and deep recession.
- *Unemployment*, which is the ratio of the number of unemployed people to the number of people in the labor force.

One final macroeconomic concern is inflation. *Inflation* is an increase in the overall price level. It happens when many prices increase simultaneously. A *deflation* is a decrease in the overall price level. Whether a person gains or loses during a period of inflation depends on whether his or her income rises faster or slower than the prices of the things he or she buys.