

Intro to Macro

- Macroeconomics is the branch of economics that deals with the "structure, performance, behavior, and decision making of the whole or "aggregate" economy.

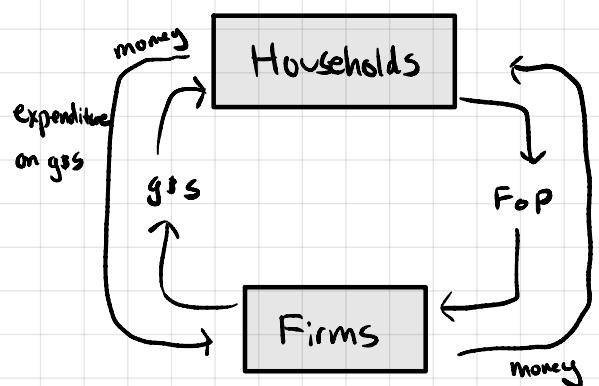
Micro

- Studies individual Markets.
- Examines price of one good / service at a time.
- Identifies quantity exchanged for one good or service.
- Deals with particular households, firms and industries.
- Demand + Supply

Macro

- Studies all markets (economy as a whole).
- Looks at average price level (avg of all prices \rightarrow inflation).
- Looks at aggregate output (GDP) and national income.
- Deals with all consumers, producers, governments, countries.
- Aggregate demand + aggregate supply.

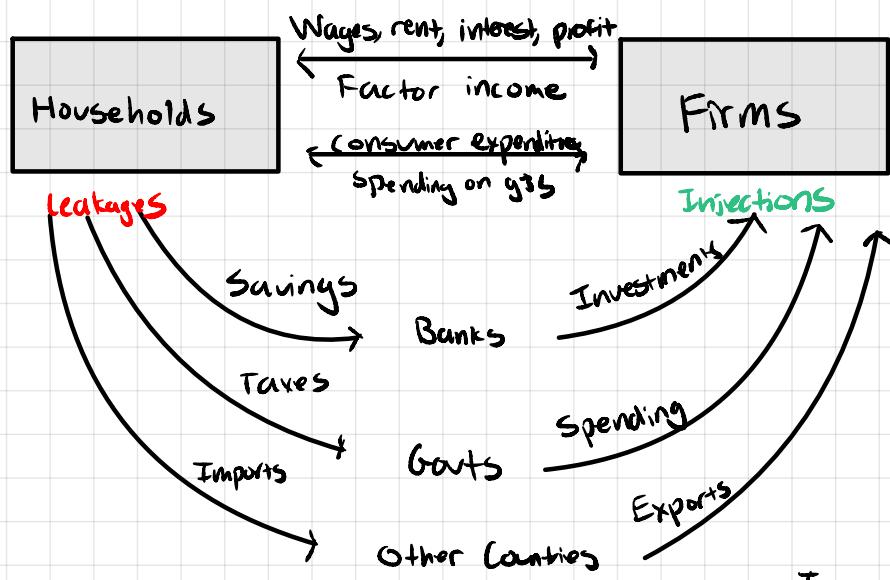
Basic Circular Flow (Closed)



- Households: groups of individuals in the economy who share the same living accommodations, who pool their income and jointly decide on the set of goods and services to consume.

- Firms: An entity (e.g. business) that use the FoP to produce and sell goods / services, and earn profits.

Open Circular Flow



• Leakages are income not spent on domestic goods and services

• Injections are spending on domestic output which does not come from households

• Imports are spending on products produced in other countries but bought domestically.

• Investment is spending by firms on capital goods which include machines, factories, offices, etc.

• Financial markets are any arrangement that facilitates the interaction of lenders and borrowers.

• Exports are goods & services produced domestically but bought in other countries.

Using the Bathtub Analogy to Explain Leakages and Injections

RS 10-5

Figure 1
Leakages > Injections

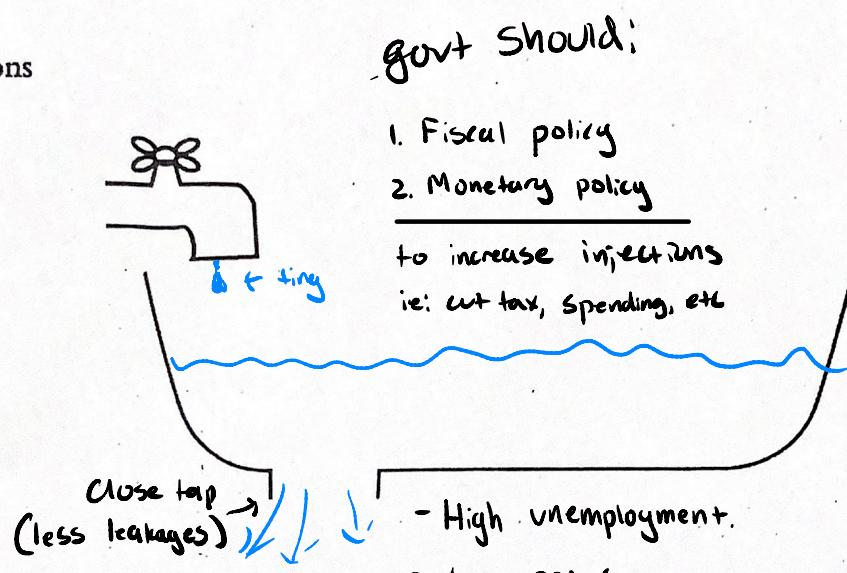


Figure 2
Leakages = Injections

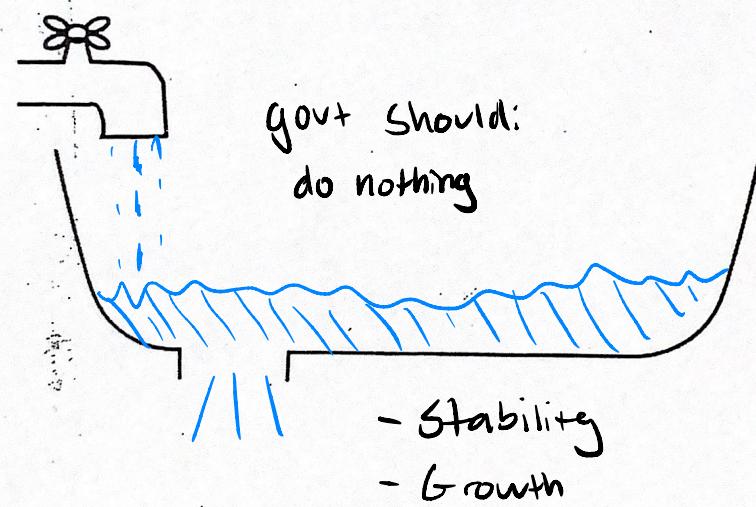


Figure 3
Leakages < Injections

