Ch.1: Introduction to Macroeconomics

- 1.1 What Macroeconomics is About
- 1.2 What Macroeconomists Do
- 1.3 Why Macroeconomists Disagree

1.1 What Macroeconomics is About

- Study of the structure and performance of national economies and of the policies that governments use to try to affect economic performance.
- <u>Issues:</u>
- Growth and Living Standards
- Fluctuations in Performance
- Unemployment and its causes
- Rising prices - inflation
- Impact of globalization and trade
- Government intervention and effectiveness

Aggregation

- Microeconomics: Focus on the firm and the individual
- Macroeconomics: Focus on national totals by aggregating firms and individuals - summing variables

1.2 What Macroeconomists Do

- Macroeconomic Forecasting - predictions
- Macroeconomic Analysis - assist in policymaking, assessing implications of general trends
- Macroeconomic Research - provide insight into how the economy works, by developing models (simplified descriptions of the economy)
- Data Development - eg total production, salaries paid,capital stock (machinery etc.)

1.3 Why Macroeconomists Disagree

- Two schools of thought:
- “Classicals” - free markets lead to “efficient” allocation of resources to maximize economy welfare - but markets must be perfectly flexible
- “Keynesians” - wages and prices adjust slowly which can lead to unemployment and disequilibrium for long periods of time - there is a role for government intervention to improve the economy

Unified Approach

- Allow for flexibility between the two views
- Interaction in goods, asset and labour markets - individuals, firms, gov’t
- Macro analysis based on micro behaviour of optimization of satisfaction (utility) and profits
- In the long-run, prices fully adjust
- Allow for various levels of price flexibility in the short-run