

HS 2nd YEAR ECONOMICS

INTRODUCTION TO MACROECONOMICS

Social sciences study the organization and functioning of a society. Economics is one such social science that studies the economic behaviour of individuals and organizations engaged in the production, distribution and consumption of goods and services in a society. It is concerned with the day-to-day innumerable economic questions both at individual level and at national level.

Macroeconomics

According to A.J Brown, "Economy is a system which provides people with goods and services which directly or indirectly satisfy their wants."

Economics is generally studied under two broad branches namely, microeconomics and macroeconomics. It was first coined by **Ragnar Frisch** in 1933.

The word macro has been derived from the Greek word *makros* meaning large. Hence, macroeconomics usually simplifies the analysis of how the country's total output and the level of employment are related to variables like prices, rate of interest, wage rates, profits and so on.

Macroeconomics is also known as aggregative economics as it focuses on the economic issues or problems which are studied at the level of an economy as a whole.

According to Prof. Boulding, "Macroeconomics deals not with individual quantities as such but with aggregates of these quantities, not with individual incomes but with the national income, not with the individual output but the national output."

Macroeconomics is concerned with the economy as a whole. But the country's economy may be best seen as composed of its distinct sectors.

For example, an economy can be well studied if we look at its three broad producing sectors namely, agriculture, industry and services. Similarly, the relationships between the sectors like, the household sector, the business sector and the government sector help us to understand some things happening to the country's economy much better than only by looking at the economy as a whole.

Income occupies the central place in the study of macroeconomics. Income, output and employment are assumed to move in the same direction (positive relationship) as the increase in one brings simultaneous increase in the other.

Scope of Macroeconomics

The scope of macroeconomics includes the following:

- (a) Macroeconomics seeks to explain how the national income and total employment of resources are determined i.e. theory of income and employment. It also explains the causes behind fluctuations in the level of income and employment.
- (b) It explains the general price level and further describes why sometimes the economy faces the problem of sharp rise in prices and other times general price level remains stable or even falls.
- (c) It explains why the economy experiences a high growth rate at one time and a lower growth rate at other times.
- (d) Macroeconomics also studies trade among different nations. It also studies the determination of foreign exchange rates.

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