MACROECONOMICS

The Nature of Macroeconomics

1 Macroeconomics is a scientific method of analysis as well as a body of empirical economic knowledge. It seeks specific and practical understanding of the economic behaviour as a whole. Microeconomics tends to concentrate more on the aspects of concepts, analysis, and methods of deduction.
Macroeconomics tends to stress more on the understanding of the economic problems and to suggest alternative solutions.

2 Macroeconomics deals with collected and selected facts to develop theories. These theories are characterized by the economic variables in the theories. To be more exact, the theories seek the **functional relationship** of the economic variables.
The testing of these relationships is done by statistical researches, called econometrics.

3 Macroeconomics considers about :

- the determination of the level of national income ;
- the links between national income with employment / unemployment ; investment ; inflation ; and the effects that the government can have on these variables through the execution of monetary policies (- a change in money supply or interest rate) ; and fiscal policies (- a change in government expenditure or taxation measures).

In other words, macroeconomics concerns mainly about 5 questions :

- What determines the level of growth of national income ? Policies required ?
- What determines the level of unemployment ? Policies required ?
- What determines the structure of the interest rate ?
- What determines the level of prices, i.e. inflation ?
- What determines the balance of payments ? The exchange rates ? Policies required ?

4 The major variables included in macroeconomic analysis are :

- prices, i.e. prices of goods and services, wages, interest rates, exchange rates ;
- output, i.e. gross national product or national income ;
- employment, i.e. the demand for and supply of labour.

The equilibrium of these prices imply that the product market, factor market and financial / money market are all in equilibrium. Otherwise, price instability **may lead** to economic problems like inflation or unemployment, or even both.

5 Like microeconomics, macroeconomics also rests on assumptions like :

- all markets can be in equilibrium, i.e. a state of general equilibrium ;
- all parties are price-takers ;
- there is perfect information in the markets.

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