

Introduction to Macroeconomics

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What is Macroeconomics?

- ▶ **Macroeconomics is concerned with the economy as a whole**
- ▶ **These include: National Income, Aggregate Demand, Aggregate Supply, Total Consumption, General Price Level etc.**
- ▶ **Macroeconomics is called aggregative economics**

Difference between Microeconomics & Macroeconomics

- ▶ Microeconomics studies **individual** economic units; Macroeconomics studies **aggregates** of an economy
- ▶ When we study demand for a particular commodity, our study is micro but when we study aggregate demand for all commodities, it is macro

Emergence of Macroeconomics

- ▶ Emerged after the publication of the book- '**The General Theory of Employment, Interest and Money**' in 1936 by **John Maynard Keynes**
- ▶ Classical economists (**Adam Smith, Ricardo, Malthus, Pigou**) believed that there always exists a state of **full employment** in an economy (no unemployment)
- ▶ During Great Depression of 1930s (1929-33), the output and employment level in Europe and North America fell by huge amounts → affected the rest of the world → Demand for goods & services ↓ → workers were jobless → Unemployment rate was 25% in USA.
- ▶ According to Keynes, unemployment will not disappear automatically.
- ▶ Government should intervene by taking investment and production activities
- ▶ Failure of classical theory paved the way for Keynesian theory, foundation of macroeconomics

Need for a separate theory of Macroeconomics

- ▶ **Economic paradoxes**- What is good to an individual may not be desirable for the society as a whole
- ▶ **Big Issues**- some problems like inflation, unemployment, growth and development need to be handled only at the level of economy
- ▶ **Macroeconomic concepts are not simple and direct**- it is easy to define and measure individual income but not in the case of national income.

Questions

- ▶ **What do you understand by macroeconomics?**
- ▶ **Give examples of macroeconomic variables or studies.**
- ▶ **Distinguish between microeconomics and macroeconomics.**
- ▶ **Why do we need a separate study of macroeconomics?**
- ▶ **Describe the Great Depression of 1929.**

Thank You