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And there isWhy are Bond Yields RISING FAST Everywhere?Watch this video on YouTube For decades, Japan had artificially low interest rates, but since 2022, bond yields have risen, and the pace of increase is getting steeper. And when you have debt at 270% of GDP, this is a big deal. Japan has a double crisis risingOn Wednesday 16 September 1992, the UK economy was in deep recession, with unemployment of 10% interest rates of 10%, and the Pound was struggling to maintain its value against the D-Mark. As soon as markets opened, financial investors piled in to sell pounds to a beleaguered government, and Sterling fell, reaching the floor ofThe A-level essays I bought from your website are really helpful in improving my writing. Also Im always interested in the writings on your economics blog, they are clear & concise while able to describe complicated economics theories applied to the real world. 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Topics include: markets, firms, wages, national income, money, unemployment and inflation, government, and international. The official site is no longer running, so this link is to Archive.org's copy. Learning ObjectivesDefine macroeconomicsIdentify the major economic indicators used to assess the state of the macroeconomyFigure 1. The Great Depression. At times, such as when many people are in need of government assistance, it is easy to tell how the economy is doing. This photograph shows people lined up during the Great Depression, waiting for relief checks. At other times, when some are doing well and others are not, it is more difficult to ascertain how the economy of a country is doing. (Credit: modification of work by the U.S. Library of Congress/Wikimedia Commons)The 1990s were boom years for the U.S. economy. The late 2000s, from 2007 to 2013 were not. What causes the economy to expand or contract? Why do businesses fail when they are making all the right decisions? Why do workers lose their jobs when they are hardworking and productive? Are bad economic times a failure of the market system? Are they a failure of the government?These are all questions of macroeconomics, which we will begin to address in this module. We will not be able to answer all of these questions here, but we will start with the basics: How is the economy doing? How can we tell?The macro economy includes all buying and selling, all production and consumption; everything that goes on in every market in the economy. The quest to measurethe macro economy beganmore than 80 years ago, during the Great Depression. President Franklin D. Roosevelt and his economic advisers knew things were badbut how could they express and measure just how bad it was? An economist named Simon Kuznets, who later won the Nobel Prize for his work, came up with a way to track what the entire economy is producing. The resultgross domestic product (GDP)remains our basic measure of macroeconomic activity. In this module, you will learn how GDP is constructed, how it is used, and why it is so important.MacroeconomicsMacroeconomics focuses on the economy as a whole (or on whole economies as they interact). It describes what causes recessions, and what makes unemployment stay high when recessions are supposed to be over. Macroeconomics addresseswhy some countries grow faster than others, andhave higher standards of living than others. Macroeconomics involves adding up the economic activity of all households and all businesses in all markets to get the overall demand and supply in the economy. However, when we do that, something curious happens. It is not unusual that what results at the macro level is different from the sum of the microeconomic parts. Indeed, what seems sensible from a microeconomic point of view can have unexpected or counterproductive results at the macroeconomic level. If this were not the case, we wouldnt need macroeconomics as a separate discipline and we could simply use microeconomics to study macroeconomic issues.We use the term macroeconomic externality to describe when what happens at the macro level is different from and inferior to what happens at the micro level.Imagine that you are sitting at an event with a large audience, like a live concert or a basketball game. A few people decide that they want a better view, and so they stand up. However, when these people stand up, they block the view for other people, and the others need to stand up as well if they wish to see. Eventually, nearly everyone is standing up, and as a result, no one can see much better than before. The rational decision of some individuals at the micro levelto stand up for a better viewended up being self-defeating at the macro level. This is not macroeconomics, but it is an apt analogy. The economy as a whole is massive. In order to determine how it is doing weuse economic indicators statistics that measure one or more aspects of the macro economic.There is no one economic indicator that tells the whole story of the economy, so economists look at a variety of indicators some of which include:measures of aggregate production, like GDPmeasures of employment and unemployment, and measures of inflation, like the percent change in the Consumer Price Indexthe Misery Indexthe sum of the inflation and unemployment rates as a measure of how bad (i.e., miserable) the economy isThe U.S. Department of Commerce even calculates the Index of Leading Economic Indicators, which is one attempt to combine multiple economic indicators to come up with one number that tries to predict the future path of the economy. Macroeconomic Goals, Framework, and PoliciesFigure 2. This chart shows what macroeconomics is about. The box on the left indicates a consensus of what are the most important goals for the macro economy, the middle box lists the frameworks economists use to analyze macroeconomic changes (such as inflation or recession), and the box on the right indicates the two tools the federal government uses to influence the macro economy. In thinking about the overall health of the macroeconomy, it is useful to consider three primary goals: economic growth, full employment (or low unemployment), and stable prices (or low inflation).Economic growth ultimately determines the prevailing standard of living in a country. Economic growth is measured by the percentage change in real (inflation-adjusted) gross domestic product. Since the annual growth rate of the U.S. over the last hundred years averaged 3% per year, a growth rate above 3% is considered good.Unemployment, as measured by the unemployment rate, is the percentage of people in the labor force who do not have a job. When people lack jobs, the economy is wasting a precious resource-labor, and the result is lower goods and services produced. Unemployment, however, is more than a statisticit represents peoples livelihoods. While measured unemployment is unlikely to ever be zero, a measured unemployment rate of 5% or less is considered full employment.Inflation is a sustained increase in the overall level of prices. If many people face a situation where the prices that they pay for food, shelter, and healthcare are rising much faster than the wages they receive for their labor, there will be widespread unhappiness as their standard of living declines. For that reason, low inflationan inflation rate of less than 5%is a major goal. Economists use theories and models to explain and understand economic principles. In microeconomics, we used the theories of supply and demand; in macroeconomics, we use the theories ofaggregate demand (AD)andaggregate supply (AS). This book presents two perspectives on macroeconomics: the Neoclassical perspective and the Keynesian perspective, each of which has its own version of AD and AS. Between the two perspectives, you will obtain a good understanding of what drives the macroeconomy. National governments have two sets oftools for influencing the macroeconomy. The first is monetary policy, which involves managing the interest rates and the availability of credit. The second is fiscal policy, which involves changes in government spending/purchases and taxes.Each of the items inFigure 2will be explained in detail in one or more other modules. As you learn these things, you will discover that the goals and the policy tools are in the news almost every day.macroeconomicexternality:occurs when what happens at the macro level is different from and inferior to what happens at the micro level; an example would be where upward sloping supply curves for firms become a flat aggregate supply curve, illustrating that the price level cannot fall to stimulate aggregate demand Share copy and redistribute the material in any medium or format for any purpose, even commercially. Adapt remix, transform, and build upon the material for any purpose, even commercially. The licensor cannot revoke these freedoms as long as you follow the license terms. Attribution You must give appropriate credit , provide a link to the license, and indicate if changes were made . You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use. ShareAlike If you remix, transform, or build upon the material, you must distribute your contributions under the same license as the original. No additional restrictions You may not apply legal terms or technological measures that legally restrict others from doing anything the license permits. You do not have to comply with the license for elements of the material in the public domain or where your use is permitted by an applicable exception or limitation . No warranties are given. The license may not give you all of the permissions necessary for your intended use. For example, other rights such as publicity, privacy, or moral rights may limit how you use the material. Readers Question: Could you differentiate between micro economics and macro economics?Microeconomics is the study of particular markets, and segments of the economy. It looks at issues such as consumer behaviour, individual labour markets, and the theory of firms.Macro economics is the study of the whole economy. It looks at aggregate variables, such as aggregate demand, national output and inflation. Micro economics involvesMacro economics involvesMonetary / fiscal policy. e.g. what effect does interest rates have on the whole economy?Reasons for inflation and unemployment.Economic growthInternational trade and globalisationReasons for differences in living standards and economic growth between countries.Government borrowingMoving from micro to macroIf we look at a simple supply and demand diagram for motor cars. Microeconomics is concerned with issues such as the impact of an increase in demand for cars. This micro economic analysis shows that the increased demand leads to higher price and higher quantity.Macro economic analysisThis looks at all goods and services produced in the economy. The macro diagram is looking at real GDP (which is the total amount of output produced in the economy) instead of quantity.Instead of the price of a good, we are looking at the overall price level (PL) for the economy. Inflation measures the annual % change in the aggregate price level.Instead of just looking at individual demand for cars, we are looking at aggregate demand (AD) total demand in the economy.Macro diagrams are based on the same principles as micro diagrams; we just look at Real GDP rather than quantity and Inflation rather than Price Level (PL)The main differences between micro and macro economicsSmall segment of economy vs whole aggregate economy.Microeconomics works on the principle that markets soon create equilibrium. In macro economics, the economy may be in a state of disequilibrium (boom or recession) for a longer period.There is little debate about the basic principles of micro-economics. Macro economics is more contentious. There are different schools of macro economics offering different explanations (e.g. Keynesian, Monetarist, Austrian, Real Business cycle e.t.c).Macro economics places greater emphasis on empirical data and trying to explain it. Micro economics tends to work from theory first though this is not always the case.Differences between microeconomics and macroeconomicsThe main difference is that micro looks at small segments and macro looks at the whole economy. But, there are other differences.Equilibrium DisequilibriumClassical economic analysis assumes that markets return to equilibrium (S=D). If demand increases faster than supply, this causes price to rise, and firms respond by increasing supply. For a long time, it was assumed that the macro economy behaved in the same way as micro economic analysis. Before, the 1930s, there wasnt really a separate branch of economics called macroeconomics.Great Depression and birth of MacroeconomicsIn the 1930s, economies were clearly not in equilibrium. There was high unemployment, output was below capacity, and there was a state of disequilibrium. Classical economics didnt really have an explanation for this dis-equilibrium, which from a micro perspective, shouldnt occur.In 1936, J.M.Keynes produced his The General Theory of Employment, Interest and Money; this examined why the depression was lasting so long. It examined why we can be in a state of disequilibrium in the macro economy. Keynes observed that we could have a negative output gap (disequilibrium in the macro-economy) for a prolonged time. In other words, microeconomic principles of markets clearing, didnt necessarily apply to macro economics. Keynes wasnt the only economist to investigate this new branch of economics. For example, Irving Fisher examined the role of debt deflation in explaining the great depression. But, Keynes theory was the most wide-ranging explanation and played a large role in creating the new branch of macro-economics.Since 1936, macroeconomics developed as a separate strand within economics. There have been competing explanations for issues such as inflation, recessions and economic growth.Similarities between microeconomics and macroeconomicsAlthough it is convenient to split up economics into two branches microeconomics and macroeconomics, it is to some extent an artificial divide.Micro principles are used in macroeconomics. If you study the impact of devaluation, you are likely to use same economic principles, such as the elasticity of demand to changes in price.Micro effects macroeconomics and vice versa. If we see a rise in oil prices, this will have a significant impact on cost-push inflation. If technology reduces costs, this enables faster economic growth.Blurring of distinction. If house prices rise, this is a micro economic effect for the housing market. But, the housing market is so influential that it could also be considered a macro-economic variable, and will influence monetary policy.There have been efforts to use computer models of household behaviour to predict the impact on the macro economy.RelatedExternal LinksMicro and macro economics at IMFLast updated 1 July, 2019.The term macro was first used in economics by Ragner Frisch, a Norwegian economist; he was the first who used the term macro in economics in 1933; however, its significance as a methodological approach to economic problems gained popularity with Mercantilists in the 16th and 17th centuries. They tried to study the economic system as a whole. Macroeconomics is defined as that branch of economics which studies economic activities including economic issues and economic problems at the level of an economy as a whole. MeaningThe term Macro is derived from the Greek word Makros, which means large. The term macroeconomics is thus used to refer to the economic system as a whole.Basically, it is an analysis of averages or aggregates covering the whole economy, such as total employment, national income, national output, total investment, total consumption, total savings, aggregate demand, general price level, wage level, and cost structure. It is concerned with the problems of unemployment, economic fluctuations, inflation or deflation, international trade, and economic growth.As part of the business cycle, it is concerned with the impact of investments on total output, total income, and employment. International trade is concerned with issues like the balance of payments and foreign aid, which fall under macroeconomics. Monetary economics focuses on how the quantity of money affects the general price level. Above all, Macroeconomic theory discusses how to determine the total income of a country and why it fluctuates. Finally, it studies the factors that hinder economic growth and the ones that encourage it.DefinitionsMany celebrated economists have defined macroeconomics in their own ways. Some of them are as follows-According to BouldingMacroeconomics theory is that part of economics which studies the overall averages and aggregates of the system.According to ShapiroMacroeconomics deals with the functioning of the economy as a whole.According to M. H. SpencerMacroeconomics is concerned with the economy as a whole or large segments of it. In macroeconomics, attention is focussed on such problems as the output and other matters of economy-wide significance.Variables of MacroeconomicsMacroeconomics is the study of aggregates of the economic system. The macroeconomic variables, or variables representing the economy as a whole, are called aggregates of the economic system. Some examples of these aggregates are as follows:Aggregate ConsumptionThis term refers to the total consumption of goods and services in the economy for the period of an accounting year.Aggregate InvestmentDuring an accounting year, it corresponds to the total expenditures by all market participants on such goods that add to the stock of capital.Aggregate DemandDuring a period of an accounting year, its the sum of all the expenditures made in the economy on goods and services.Aggregate SupplyIt is the total production of goods and services in the economy during the accounting year.Domestic IncomeIt means income generated within the domestic territory of a country during the accounting year.General Price LevelIt means the index of prices of all goods and services at the end of a specified period of time.Scope and Objectives of MacroeconomicsWhen it comes to economic analysis, macroeconomics is of much theoretical and practical importance. Lets discuss some significant scopes and objectives of macroeconomics.Understanding the Working of EconomyThe study of macroeconomic variables is indispensable for understanding the working of the economy. Our main economic problems are concerned with the behavior of total income, output, employment, and the general price level in the economy. These variables are statistically measurable, thereby facilitating the possibility of analyzing the effects on the functioning of the economy.National IncomeMacroeconomics is very important for evaluating the overall performance of the economy in terms of national income. After the Great Depression of the 1930s, it became necessary to analyze the causes of general overproduction and general unemployment.Economic Growth and DevelopmentMacroeconomics involves the study of problems relating to economic growth or increase in per capita income. Specifically, it helps underdeveloped countries understand different economic variables on their path to become a developed country.General UnemploymentMacroeconomics also studies problems related to employment and unemployment. In an economy, employment depends on effective demand, which in turn depends on aggregate demand and aggregate supply functions. Unemployment is thus caused by a deficiency of effective demand. To raise this, effective demand should be raised by increasing total investment, total output, total income, and total consumption. Thus, macroeconomics has special significance in studying the causes, remedies, and effects of general unemployment.Business CyclesEconomic activity always shows ups and downs; it never shows a steady pattern of change all the time. This cyclic movement of an economy is known as the business cycle, and it is a macroeconomic problem. Macroeconomics analyzes the causes of economic fluctuations and provides remedies.International TradeMacroeconomics also studies trade among different countries. In macroeconomics, trade theory and tariff protection play an important role.Understanding the behavior of Individual UnitsTo understand the behavior of individual units, the demand of macroeconomics is imperative. Demand for individual products depends upon aggregate demand in the economy.Formulation of Economic PoliciesMacroeconomics is extremely useful for drafting economic policies. Almost all governments resort to aggregate data pertaining to economic factors in formulating economic policies.General Price LevelSeveral changes occur in the general value of money or general price level. A fall in the value of money or a rise in prices is called inflation, and a fall in the price is called deflation. Both situations are considered undesirable for the market. So, to keep prices and the value of money in control, economists mostly resort to macroeconomics studies.Economic PlanningMacroeconomics plays a crucial role when it comes to economic planning. Knowledge of mutual dependence of different sectors, the composition of national income, nature of poverty, etc., is very important for governments to formulate comprehensive economic plans.ExamplesRate of UnemploymentThe unemployment rate is the percentage of the unemployed labor force at a given time. It is one of the most significant macroeconomic indicators that determine the economic health of a country.Aggregate DemandThis example of macroeconomic indicators connotes the total expenditure on the purchase of all goods and services in the economy in an accounting year.Supply of Money This is the total stock of money circulating in an economy. The circulating money includes the currency, printed notes, money in the deposit accounts, and in the form of other liquid assets.Rate of InflationInflation connotes a rise in the price level of an economy over a period of time. It is also one of the most significant macroeconomic indicators that helps understand the economic condition of a nation.Foreign Exchange RateIt compares the currencies of two countries, and it gives an insight into the relative purchasing power of each currency.

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