

Chapter - I

Macroeconomics

Definition of Economics

Lord J.M Keynes, the defines economics as the “study of the administration of scarce resources and of the determination of income and employment.”

Benham defines economics as “a study of the factors affecting the size, distribution and stability of a country’s national income.”

Division of Economics

The modern economists divided economics into:

- ◆ Microeconomics, and
- ◆ Macroeconomics.

1. Microeconomics

- ◆ Microeconomics considers economy as units of smaller parts

Microeconomics studies the behaviour of:

- ◆ **Individual production factors (Land, labourers, capitalists, entrepreneurs),**
- ◆ **Individual industries (textiles, iron, steel, transport, etc)**
- ◆ **Consuming units (individual consumers and households)**
- ◆ **Production units (firms, farms, businesses)**
- ◆ **Flow of factors of production (land, labour, capital) from resource owners to business firms, and**
- ◆ **Flow of goods and services from business firms to consumers**

Macroeconomics studies:

- ❖ How NI, GDP, employment, demand and supply, general level of price, etc are determined
- ❖ What causes fluctuation in the NI, GDP, employment, price level
- ❖ How economies grow, and
- ❖ How maximum employment and income could be achieved?

Development of Macroeconomics

- ❖ Macroeconomics theories have been developed mainly in the Post-Keynesian period
- ❖ It is further developed in the last 70 years after the World War II

2.1 Function of Macroeconomics

Followings are the functions macroeconomics:

- ❖ It helps understanding the fluctuation of economic development
- ❖ It provides a bird's eye view of the national economy and economic world
- ❖ Microeconomics helps formulate policies for growth and stability of the economy
- ❖ It is helps to regulate aggregate employment and national income
- ❖ It helps plan national economic growth rate
- ❖ It is useful to plan national wage policy
- ❖ It helps understanding economy in its dynamic aspect

2.2 Limitation of Macroeconomics

- ❖ Macroeconomics ignores the individual actors of the economy, **however, individual welfare is the main aim of economics**
- ❖ So, increasing national savings at the cost of the individual welfare cannot be wise
- ❖ Macroeconomics overlooks individual differences
- ❖ For example, the general price level may be stable, but price of food grains can ruin the poor

4. Major Economic Challenges and Problems

Challenges

- ❖ Major economic problems and best possible use of resources
- ❖ Ensure maximum satisfaction for consumers
- ❖ Maximum profit for producers

Problems

Followings are major problems are:

- ◆ **What is to produce?**
- ◆ **How to produce?**
- ◆ **For whom to produce?**
- ◆ **Are the resources economically used?**
- ◆ **How full employment is to ensure?**
- ◆ **How satisfactory efficiency of national economy could be achieved?**
- ◆ **How satisfactory growth could be achieved?**

Model Questions:

- ☐ Define macroeconomics.
- ☐ What are the objectives of macroeconomics?
- ☐ Describe the principal issues of economic analysis or what are problems and challenges of economic management?
- ☐ Do you support that state should intervene in the economic activities. Why?