

## Macro Economics

### Meaning:

The term 'Macro' is derived from the Greek word 'Uakpo' which means large. Macro economics looks at the economy as a whole. It examines the factors that determine national output and its growth overtime. It studies the economic aggregates such as the overall level of prices, output and employment in the economy.

According to **R. G. D. Allen**: "The term *macro economics* applies to the study of relations between broad economic aggregates such as total employment, income and production".

In the words of Edward Shapiro: "The major task of macro economics is the explanation of what determines the economy's aggregate output of goods and services. It deals with the functioning of the economy as a whole".

Professor **K. E. Boudling** is of the view that: "*Macro economics* is that part of economics which studies the overall averages and aggregates of the economic system. It does not deal with individual incomes but with the I national income, not with individual prices but with the price level, not with individual output, but with national output".

In brief, *Microeconomics* looks at the individual units, household, the firm, the industry, It sees and examines the "trees". Macro economics looks at the whole, the economic aggregates. It sees and analyzes the 'forest'.

### Scope of Macroeconomics

The scope of macroeconomics is very wide following points can be studied under it:

#### **1. Theory of Income and Employment**

In it, the formulation of income and Employment level is done and study of consumption, function, investment, function, multiple and accelerator is also done.

#### **2. Theory of General Price Level**

In it, the formulation of the general price level is studied and problems related to inflation, deflation are a prime subject matter of Macro Economics.

#### **3. Theory of Development and Planning**

For a fast and balanced development, developing countries apply many economic theories. So, the study of process and theories of economic development and planning is also an important subject matter of Macro Economics.

#### **4. Theory of trade cycle**

In macroeconomics study of the trade, the cycle is done. The factor of Boom and Depression in the trade cycle, there effects and removal of these effects are studied in Macro Economics.

#### **5. Theory of International Trade and Foreign Exchange**

It is also a subject matter of Macroeconomics. Under its theory of International Trade, terms of trade, determination of foreign exchange rates, etc. are studied.

### **6. Theory of Public Finance**

In it, the study of theories, policies, and effects related to government income, expenditure loan, etc. are done. Study of fiscal policy is the prime subject matter of public finance.

### **7. Principles of Money and Banking**

In macroeconomics, theories related Money and banking, country's monetary and credit system, functions of the central bank and other banks and international finance are studied.

### **8. Macro-Theory of Distribution**

In macroeconomics study of Distribution of wages and profits in national income is done. So it is clear that the scope of Macro Economics it's very wide.

### **Importance/Issues/Scope of Macro Economics:**

The importance/issues/scope, which are addressed in macro economics are in brief as under:

- (i) It helps in understanding the determination of income and employment.** Late **J.M. Keynes** laid great stress on macro economic analysis. He, in his revolutionary book, "General Theory, Employment interest and Money", brought drastic changes in economic thinking. He explained the forces or factors which determine the level of aggregate employment and output in the economy.
- (ii) Determination of general level of prices.** Macro economic analysis answers questions as to how the general price level is determined and what is the importance of various factors which influence general price level.
- (iii) Economic growth.** The macro economic models help us to formulate economic policies for achieving long run economic growth with stability. The new developed growth theories explain the causes of poverty in under developed countries and suggest remedies to overcome them.
- (iv) Macro economics and business cycles.** It is in terms of macro economics that causes of fluctuations in the national income are analyzed. It has also been possible now to formulate policies for controlling business cycles i.e., inflation and deflation.
- (v) International trade.** Another important subject of macro economics is to analyze the various aspects of international trade in goods, services and balance of payment problems, the effect of exchange rate on balance of payment etc.
- (vi) Income shares from the national income.** **Mr. M. Kalecki and Nicholas Kelder**, by making departure from Ricardo theory, has presented a macro theory of distribution of income. According to these economists, the relative shares of wages and profits depend upon the ratio of investment to national income.

**(vii) Unemployment.** Another macroeconomic issue is to explain the causes of unemployment in the economy. **Stagflation** is another important issue of modern economics. The Keynesian and post Keynesian economists are putting lot of efforts in explaining the causes of cyclical unemployment and high unemployment coupled with inflation and suggesting remedies to counteract them.

**(viii) Macro economic policies.** Fiscal and monetary policies affect the performance of the economy. These two major types of macroeconomic policies are central in macro economic analysis of the economy.

**(9) Global economic system.** In macro economic analysis, it is emphasized that a nation's economy is a part of a global economic system. A good or weak performance of a nation's economy can affect the performance of the world economy as a whole.

### **Limitations/Exceptions of Macro Economics:**

The main limitations/exceptions of macro economics are as follows:

(i) The macroeconomics ignores the welfare of the individual. For instance, if national saving is increased at the cost of individual welfare, it is not considered a wise policy.

(ii) The macro economics analysis regards aggregates as homogeneous but does not look into its internal composition. For instance, if the wages of the clerks fall and the wages of the teachers rise, the average wage may remain the same.

(iii) It is not necessary that all aggregate variables are important. For instance, national income is the total of individual incomes. If national income in the country goes up, it is not necessary that the income of all the individuals in the country will also rise. There is a possibility that the rise in national income may be due to the increase in the incomes of a few rich families of the country.

(iv) The macroeconomic models are designed mostly to suit the developed countries of the world. The developing countries face different economic realities, so they do not benefit much from them.