MACROECONOMICS

Lebedeva Larysa Valerianivna,

PhD, associate professor

Department of economics and competitive policy
(room A-432)

TOPIC 1. SUBJECT, METHOD AND FUNCTIONS OF MACROECONOMICS

Plan

1. Macroeconomics as a section of economics. Subject of macroeconomics.

2. Methodology of macroeconomic analysis. Economic modeling.

3. Aims and objectives of macroeconomics.

4. Formation and development of macroeconomics. Modern macroeconomic theories.

1. Macroeconomics as a section of economics. Subject of macroeconomics.

- **MACROECONOMICS –** investigates economic activity and interaction of the entire set of economic entities, that is the national or world economy as a whole.
- **Subject of macroeconomics** – is not just a national economy in general, and its corresponding type, but a certain economic system as the whole and its aggregated parameters.

1. Macroeconomics as a section of economics. Subject of macroeconomics.

The macroeconomic view of the country's economy implies the need to distinguish its **sectoral composition** and its **macroeconomic actors**: ***households, enterprises, the state, the rest of the world (abroad).***

- Summing the first two sectors forms **a private closed economy**.
- **Adding to private economy the state institutions generates a wider aggregate - a mixed closed (private) economy.**
- If the "**rest of the world" sector** is added to the mixed closed economy, then we will have an **open economy**.

Macroeconomics aggregetes (institutional sectors)

- **1. Households** are a collection of all economic units whose activities are aimed at meeting their own needs and interests.
- **They carry out the following activities:** offer factors of production, reallocate received income for consumption and accumulation.
- **This sector includes:** personal households; individual labor activity (entrepreneurial activity without involvement of hired labor); peasant (farm) farms.

Macroeconomics aggregetes (institutional sectors)

- **2. Bussiness sector or nonfinancial corporations** includes all resident institutional units whose main function is the production of goods and the provision of non-financial services for sale at prices that reimburse production costs.
- **The following sector is also referred to as:** enterprises that are fully financed from the state budget and produce goods; non-profit organizations engaged in the provision of education services, health care at a fee, trade associations serving the business.

Macroeconomics aggregetes (institutional sectors)

- **3. The financial corporations sector** is a set of institutional units that deal with accumulation and redistribution of capital.
- **The main incomes** of this sector are income from credit and deposit operations, interest, insurance premiums.
- **This sector includes:** National Bank; credit-deposit organizations (commercial banks); financial and intermediary organizations (investment corporations and corporations engaged in financial leasing); insurance organizations and pension funds.

Macroeconomics aggregetes (institutional sectors)

- **4.Government sector** – is a collection of all institutional units that promote the provision of non-market services for individual and collective consumption, as well as redistribute national income.
- **These units are employed** in the field of general management, regulation, law enforcement, defense, as well as in the social sphere, health, social culture, arts, physical culture and sports.
- ***The main resources of this sector are formed by compulsory deductions from other sectors.*** The government sector is divided into the following sub-sectors: government; local government; social security funds and other extrabudgetary funds.

Macroeconomics aggregetes (institutional sectors)

- **5. Sector of non-profit organizations serving households** - is a set of institutional units that provide non-market services to households.
- **The main sources of income** in this sector are voluntary and charitable contributions of the population (households), property income, transfers.
- **The structure of this sector includes:** public and religious organizations (trade unions, political parties, religious societies, sports associations); charitable organizations and foundations; other non-profit organizations.

Macroeconomics aggregetes (institutional sectors)

- **6. Abroad sector** covers foreign state institutions (non-residents) that are outside the state but exchange commodities, services, capital with national economic entities.

2. Methodology of macroeconomic analysis. Economic modeling.

- METHODS OF MACROECONOMIC ANALYSIS

1) general scientific methods of scientific knowledge;

2) method of modeling.

MACROECONOMIC CATEGORY – total output, total employment, total income, aggregate expenditures, and the general level of prices.

2. Methodology of macroeconomic analysis. Economic modeling.

- **MACROECONOMIC MODEL** – is an analytical tool designed to describe the operation of the economy of a country or a region.
- The macroeconomic model is a simulation of certain really existing macroeconomic processes or phenomena on a specially constructed analog in the form of mathematical equations and / or graphs.

2. Methodology of macroeconomic analysis. Economic modeling.

CONDITIONS OF MACROECONOMIC MODEL'S PROBABILITY:

- 1. DISPLAY OR ANALOGUE - The model should reflect the main, essential features and features of the original.
- 2. REPRESENTATIVITY - the model should be an abstract substitute for the object - the original.
- 3. EXTRAPOLATION - studying the model should provide new information, new knowledge about the object - the original.

2. Methodology of macroeconomic analysis. Economic modeling.

- **The long run** is the period when the general price level, contractual wage rates, and expectations adjust fully to the state of the economy.
- In the long run, firms change production levels in response to (expected) economic profits or losses, and the land, labor, capital goods and entrepreneurship vary to reach the minimum level of long-run average cost.
- All production in real time occurs **in the short run**. The general price level, contractual wage rates, and expectations **may not fully adjust** to the state of the economy.

3. Aims and objectives of macroeconomics.

- **THE AIM OF MACROECONOMICS** – to research an economic connections between all macroeconomic subjects.

MACROECONOMIC FUNCTIONS:

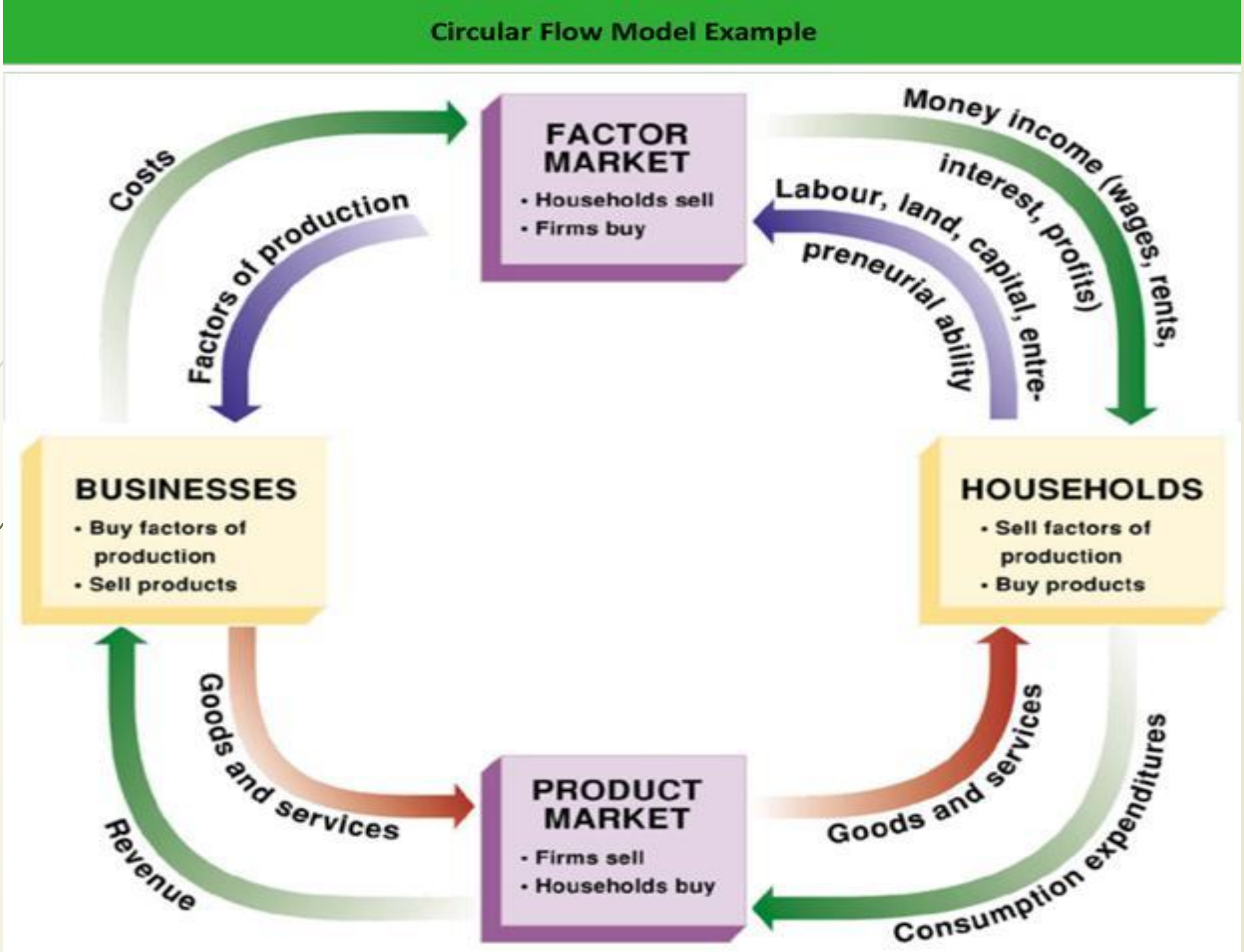
- 1) theoretical-cognitive - is to explain the laws, principles, processes and phenomena of economic life;
- 2) applied or practical - determine the goals and directions of economic growth, make recommendations for economic behavior of economic entities, priorities and objectives of the state's economic policy;
- 3) educational or world-view - cultivate rational economic thinking, define the rules of market economic behavior.

3. Aims and objectives of macroeconomics.

- **Positive economics** focuses on facts and cause-and-effect relationships. It includes description, theory development, and theory testing (theoretical economics). Answers question **<u>what economy is.</u>**
- Economic policy, on the other hand, involves **normative economics**, which incorporates value judgments about **<u>what the economy should be</u>** like or what particular policy actions should be recommended to achieve a desirable goal (policy economics).
- ***<u>Positive economics concerns what is, whereas normative economics embodies subjective feelings about what ought to be.</u>***

3. Aims and objectives of macroeconomics.

- **An aggregate** is a collection of specific economic units treated as if they were one unit. Therefore, we might lump together the millions of consumers in the economy and treat them as if they were one huge unit called "consumers."
- In macroeconomics, there are two types of quantitative variables: **stocks and flows.**
- Flows cause changes in stocks. The relationship of stocks and flows forms the basis of the original macroeconomic model of circular flows.


Circular Flow Model Example
FACTOR MARKET
• Households sell
• Firms buy
BUSINESSES
• Buy factors of production
• Sell products
HOUSEHOLDS
• Sell factors of production
• Buy products
PRODUCT MARKET
• Firms sell
• Households buy
Costs
Factors of production
Money income (wages, rents, interest, profits)
Labour, land, capital, entrepreneurial ability
Goods and services
Revenue
Goods and services
Consumption expenditures

3. Aims and objectives of macroeconomics.

- **MACROECONOMIC POLICY** – focuses on limiting the effects of the business cycle to achieve the economic goals of price stability, full employment, and growth.
- **In an open economy with state interference**, the pattern of circular flows is more complicated. <u>*The goal of macroeconomic policy is primarily to establish and maintain a short-term and long-term overall macroeconomic equilibrium*</u>

4. Formation and development of macroeconomics. Modern macroeconomic theories

- **KEYNESIAN THEORY** – optimal economic performance could be achieved -– and economic slumps prevented – **by influencing aggregate demand** through active stabilization and economic **intervention policies by the government**.
- Keynesian economics is considered a "demand-side" theory that focuses on changes in the economy over the short run.

4. Formation and development of macroeconomics. Modern macroeconomic theories

- **Neoclassical economics** assumes that people have rational expectations and strive to maximize their utility.
- **This school presumes** that people act independently on the basis of all the information they can attain.
- Since neoclassical economists believe the market is always in equilibrium, macroeconomics focuses on the growth of supply factors and the influence of money supply on price levels.

4. Formation and development of macroeconomics. Modern macroeconomic theories

- **The Monetarist school** is largely credited to the works of Milton Friedman.
- Monetarist economists believe that the ***role of government is to control inflation by controlling the money supply***.
- Monetarists believe that markets are typically clear and that participants have rational expectations.
- Monetarists reject the Keynesian notion that governments can "manage" demand and that attempts to do so are destabilizing and likely to lead to inflation.