Module I - Introduction to Macroeconomics

Nature and scope of Macroeconomics – origin and growth of Macroeconomics – why study macroeconomics - limitations of macroeconomics – concepts used in macroeconomic analysis – Use of model in macroeconomics : – Circular flow of Income and Expenditure in various sectors. Trade cycle - National income and Green GDP

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INTRODUCTION TO MACROECONOMICS

What will you learn ?

1. Meaning
2. Origin
3. Scope
4. Why study macroeconomics?
5. Economic growth model
6. Limitations of macroeconomic study

MEANING OF MACROECONOMICS

1. K R Boulding – " macroeconomics studies the overall averages and aggregates of the economic system"

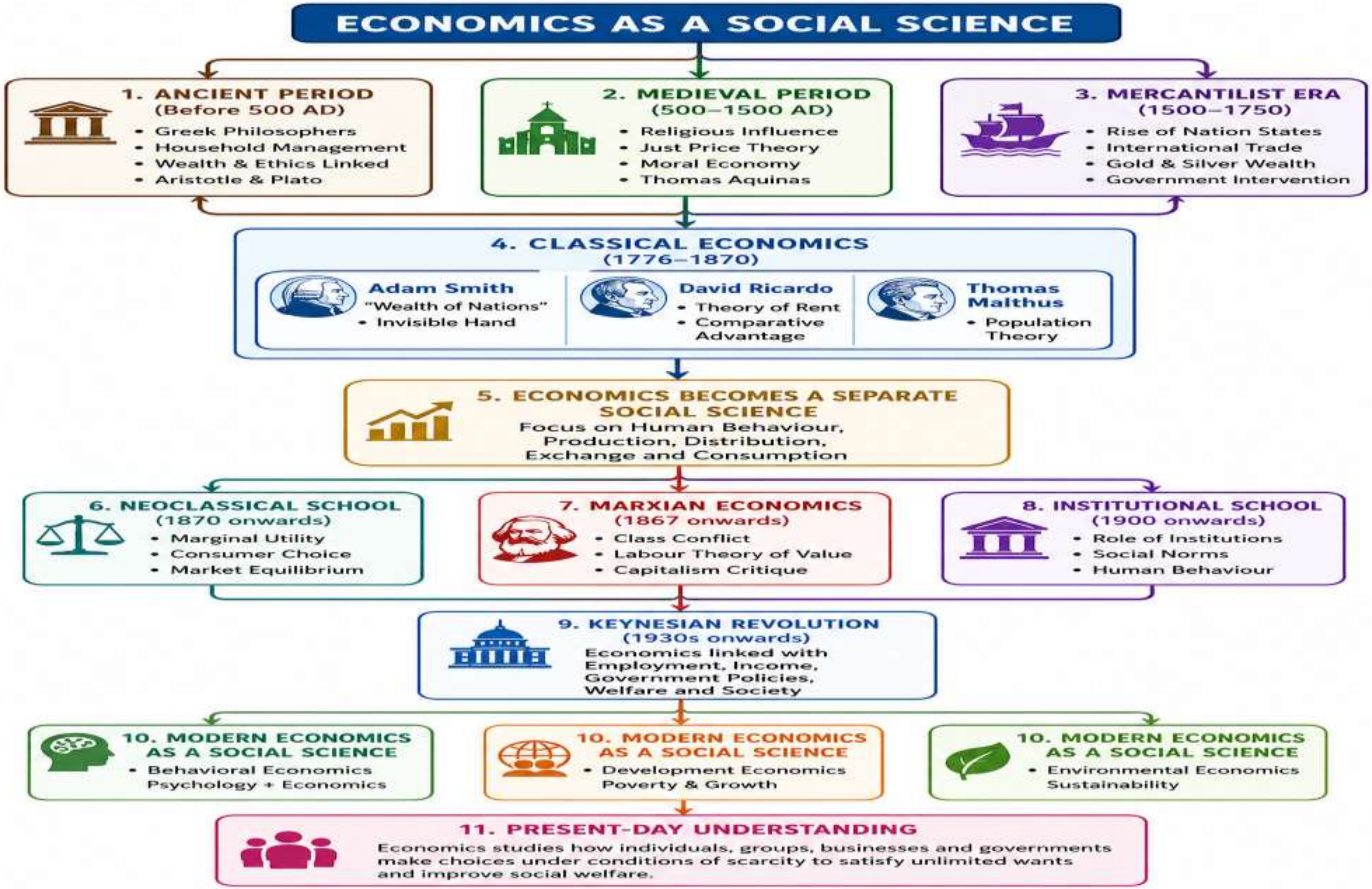
Watch this video for a better understanding – copy and paste the link on google.

https://www.investopedia.com/terms/m/macroeconomics.asp

ORIGIN

Three main schools of thought help in understanding the origin

1. The classical school of thought
2. Keynesian Theory
3. Post Keynesian school of thought or Modern school of thought


ECONOMICS AS A SOCIAL SCIENCE
1. ANCIENT PERIOD
(Before 500 AD)
• Greek Philosophers
• Household Management
• Wealth & Ethics Linked
• Aristotle & Plato
2. MEDIEVAL PERIOD
(500–1500 AD)
• Religious Influence
• Just Price Theory
• Moral Economy
• Thomas Aquinas
3. MERCANTILIST ERA
(1500–1750)
• Rise of Nation States
• International Trade
• Gold & Silver Wealth
• Government Intervention
4. CLASSICAL ECONOMICS
(1776–1870)
Adam Smith
"Wealth of Nations"
• Invisible Hand
David Ricardo
• Theory of Rent
• Comparative Advantage
Thomas Malthus
• Population Theory
5. ECONOMICS BECOMES A SEPARATE SOCIAL SCIENCE
Focus on Human Behaviour, Production, Distribution, Exchange and Consumption
6. NEOCLASSICAL SCHOOL
(1870 onwards)
• Marginal Utility
• Consumer Choice
• Market Equilibrium
7. MARXIAN ECONOMICS
(1867 onwards)
• Class Conflict
• Labour Theory of Value
• Capitalism Critique
8. INSTITUTIONAL SCHOOL
(1900 onwards)
• Role of Institutions
• Social Norms
• Human Behaviour
9. KEYNESIAN REVOLUTION
(1930s onwards)
Economics linked with Employment, Income, Government Policies, Welfare and Society
10. MODERN ECONOMICS AS A SOCIAL SCIENCE
• Behavioral Economics
Psychology + Economics
10. MODERN ECONOMICS AS A SOCIAL SCIENCE
• Development Economics
Poverty & Growth
10. MODERN ECONOMICS AS A SOCIAL SCIENCE
• Environmental Economics
Sustainability
11. PRESENT-DAY UNDERSTANDING
Economics studies how individuals, groups, businesses and governments make choices under conditions of scarcity to satisfy unlimited wants and improve social welfare.

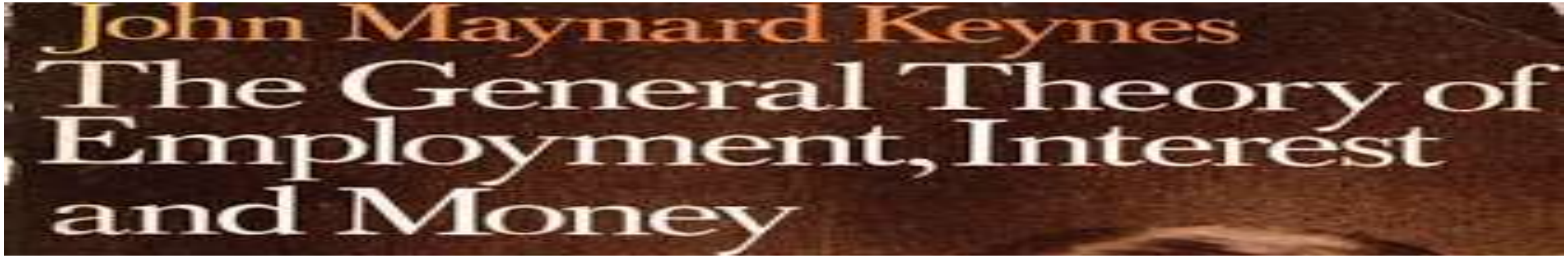
KEYNESIAN THEORY / THOUGHT

Keynesian Ideas

An understanding of Keynesian ideas can be helpful in evaluating macroeconomic stability in terms of prices, jobs and incomes

- Keynesians believe that free markets are **volatile** and **not always self-correcting** in the event of an **external shock**
- The **free-market system** is prone to **lengthy periods of recession & depression**
- Economies can remain stuck in an **"underemployment" equilibrium**
- In a world of stagnation or depression, **direct state intervention** may be essential to restore confidence and lift demand.
- Keynes was one of the first economists to criticise the profession for adhering to unrealistic assumptions

John Maynard Keynes was born in 1883. Educated at Eton College and Cambridge University - where he later taught. He died aged 63 in 1946



POST KEYNESIAN (PK) SCHOOL OF THOUGHT OR MODERN SCHOOL OF THOUGHT

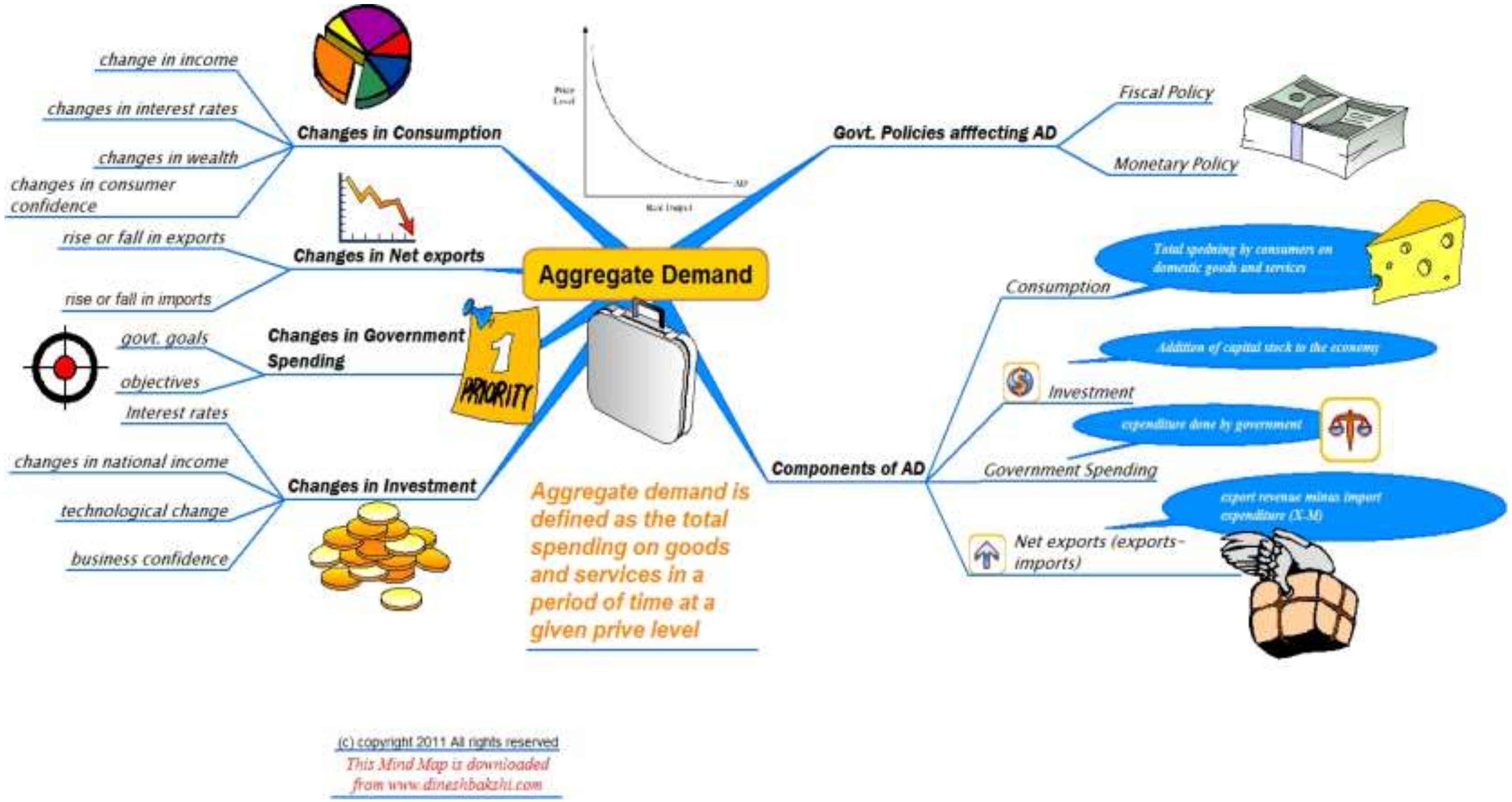
The various PK strands: 5-way typology

- **Fundamentalist or Financial Keynesians:**
  - Money, finance, liquidity preference, uncertainty, methodology
  - Davidson, Minsky, Kregel, Chick, Dow, Fontana
- **Kaleckians:**
  - Pricing, growth, cycles, employment, income distribution
  - Sawyer, Bhaduri, Dutt, Blecker, Fazzari
- **Sraffians:**
  - Relative prices, technical choice, input-output models, capital theory
  - Garegnani, Kurz, Pasinetti, Steedman
- **Institutionalists:**
  - Institutions (firms, banks), pricing, behavioural economics
  - Fred Lee, Peter Earl, Galbraith 2x, MMT (Wray)
- **Kaldorians:**
  - Growth, money, international trade, productivity growth
  - Godley, Thirlwall, McCombie, Palley

Scope of Macroeconomics

1. Determination of national income
2. Trade cycles
3. Aggregate demand and aggregate supply
4. Employment and unemployment
5. Money and prices
6. Economic growth and development
7. Balance of payments and FOREX

MAP IMAGE - SCOPE OF MACROECONOMICS



LIMITATIONS

1. Excessive emphasis on aggregates
2. Conflict between micro and macro objectives
3. Macroeconomic models based on unrealistic assumptions
4. Limited applicability to developing economies (perceptions are changing)