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B.A. Economics, Part -2

Paper- I

Topic : Nature ,scope and importance of Macro-Economics

Macro Economics

The term 'macro' was first used in economics by Ragner Frisch in 1933. But as a methodological approach to economic problems, it originated with the Mercantilists in the 16th and 17th centuries. They were concerned with the economic system as a whole. In the 18th century, the Physiocrats adopted it in their Table Economies to show the 'circulation of wealth' (i.e., the net product) among the three classes represented by farmers, landowners and the sterile class. Malthus, Sismondi and Marx in the 19th century dealt with macroeconomic problems. Walras, Wicksell and Fisher were the modern contributors to the development of macroeconomic analysis before Keynes.

Certain economists, like Cassel, Marshall, Pigou, Robertson, Hayek and Hawtrey, developed a theory of money and general prices in the decade following the First World War. But credit goes to Keynes who finally developed a general theory of income, output and employment in the wake of the Great Depression.

Meaning of Macro-economics

Macroeconomics is the branch of economics that studies the behavior and performance of an economy as a whole. It focuses on the aggregate changes in the economy such as unemployment, growth rate, gross domestic product and inflation.

Macroeconomics analyzes all aggregate indicators and the microeconomic factors that influence the economy. Government and corporations use macroeconomic models to help in formulating of economic policies and strategies.

Nature of Economics

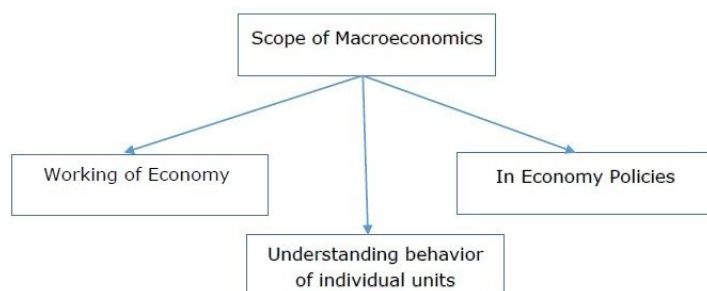
Macroeconomics is basically known as theory of income. It is concerned with the problems of economic fluctuations, unemployment, inflation or deflation and economic growth. It deals with the aggregates of all quantities not with individual price levels or outputs but with national output.

As per G. Ackley, Macroeconomics concerns itself with such variables –

- *Aggregate volume of the output of an economy*
- *Extent to which resources are employed*
- *Size of the national income*
- *General price level*

Scope of Macro -economics

Macroeconomics is much of theoretical and practical importance. Following are the points covered under the scope of macroeconomics –



- **Working of the Economy**

The study of macroeconomics is crucial to understand the working of an economy. Economic problems are mainly related to the employment, behavior of total income and general price in the economy. Macroeconomics help in making the elimination process more understandable.

- **In Economy Policies**

Macroeconomics is very useful in an economic policy. Underdeveloped economies face innumerable problems related to overpopulation, inflation, balance of payments etc. The main responsibilities of government are controlling the overpopulation, prices, volume of trade etc.

Following are the economic problems where macroeconomics study are useful –

In national income

In unemployment

In economic growth

In monetary problems

- **Understanding the Behavior of Individual Units**

The demand for individual products depends upon aggregate demand in the economy therefore understanding the behavior of individual units is very important in macroeconomics. Firstly, to solve the problem of deficiency in demand of individual products, understanding the causes of fall in aggregate demand is required. Similarly to know the reasons for increase in costs of a particular firm or industry, it is first required to understand the average cost conditions of the whole economy. Thus, the study of individual units is not possible without macroeconomics.

Macroeconomics enhances our knowledge of the functioning of an economy by studying the behavior of national income, output, savings, and consumptions.

The Importance of Macroeconomics

Macroeconomic theory

- ✓ reveals and explores *the regularities* of macroeconomic processes and events;
- ✓ aims to *explain* macroeconomic phenomenon;
- ✓ helps to understand *the cause-and-effect relations* in the aggregate economy;
- ✓ serves the base for elaboration of *principles, tools* and *measures* of *macroeconomic policy* that might prevent or improve economic performance and can in the best way serve to the needs of the society;
- ✓ provides the framework to *make forecasts* of future economic development, to *predict* future economic problems.

Macroeconomics represents
a *fascinating intellectual* *occupation* that has
great practical *importance*.

