

# INTRODUCTION TO MACRO ECONOMICS

# INTRODUCTION

## BRANCHES OF ECONOMICS



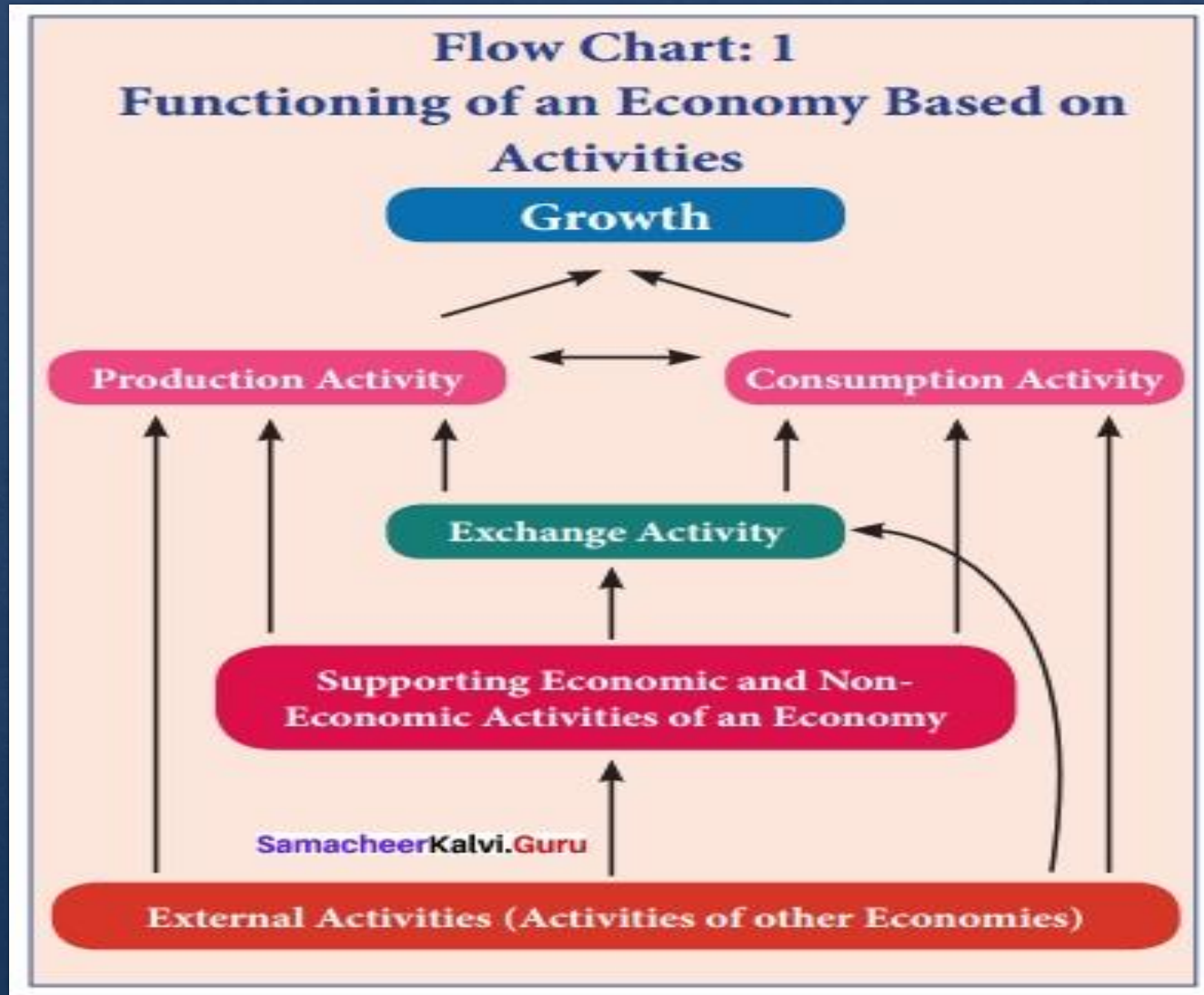
Coined by the Norwegian economist Ragnar Frisch (1933)                      NOBEL PRIZE

## JM KEYNES

◆ “The General Theory of Employment,  
Interest and Money”

(1936)

◆ ‘Father of Modern Macro Economics’.





# IMPORTANCE TO MACRO ECONOMICS

- ◆ Functioning of the economy
- ◆ Future problems, needs and challenges of an economy
- ◆ To use scientific investigation- to understand the reality
- ◆ Helps to make meaningful comparison
- ◆ Better prediction – formulate suitable policies

# Scope of Macro Economics

- ◇ National Income
- ◇ Inflation
- ◇ Buisness cycle
- ◇ Poverty and unemployment
- ◇ Economic policy
- ◇ Economic growth

# Economy and its Types

An economy is referred to any system or area where economic activities are carried out

◆ A. J. Brown - "A system by which people earn their living."

PRODUCTION

CONSUMPTION

AIM TO ACHIEVE

GROWTH

# EXCHANGE ACTIVITY

SUPPORTS

PRODUCTION

CONSUMPTION



INFLUENCED BY

◇ ECONOMIC ACTIVITY

NON ECONOMIC ACTIVITY

Transport

Banking

Advertising

Planning

Govt policies

Environment

Health

Education

Entertainment

EXTERNAL ACTIVITIES

IMPORT

EXPORT

Economies can be classified into different types

# 1. Status of Development



1. Developed
2. Underdeveloped
3. Undeveloped
4. Developing

## 2. System of Activities

e

- ◆ Capitalistic Economy
- ◆ Socialistic Economy
- ◆ Mixed Economy

### 3. Scale of Activities

- ◇ SMALL
- ◇ LARGE SCALE

### 4. Nature of Functioning

STATIC  
DYNAMIC



## 5. Nature of operations

Closed

Open

## 6. Nature of Advancement

Traditional  
modern

## 7. Level of National Income

Low income

Middle income

High income

# Economic Systems

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Capitalistic  
Economy

Socialistic  
Economy

Mixed  
Economy

# CAPITALISM

**Private  
Ownership of  
Property**

**ADAM SMITH IS  
THE FATHER OF  
CAPITALISM**

**Freedom of  
Choice and  
Enterprise**

**Price  
mechanism**

**Role of the  
government is less and  
market determine all  
economic activities**

**Profit Motive**

**Role of  
government**

**Free  
competition**

**Inequalities of  
income**

## MERITS OF CAPITALISM

- ◇ 1. Efficient use of resources
- 2. Incentives for hard work
- 3. Economic progress
- 4. Consumer sovereignty
- 5. Higher rates of capital formation
- 6. Automatic working
- 7. Development of new technology

## DEMERITS OF CAPITALISM

- 1. Concentration of wealth and income
- 2. Wastage of resources
- 3. Class struggle
- 4. Business cycle
- 5. Production of non essential goods



# SOCIALISM

1. Public  
Ownership  
of Means of  
Production

2. Central  
Planning

3.  
Maximum  
Social  
Benefit

4. Non-  
existence of  
Competition

**KARL MARX** IS THE  
FATHER OF  
CAPITALISM

CONTROLLED BY A  
CENTRAL  
AUTHORITY

5. Absence  
of Price  
Mechanism

6. Equality  
of Income

7. Equality  
of  
Opportunity

8. Classless  
Society

## MERITS

1. Reduction Inequalities
2. Rational Allocation of Resources
3. Absence of Class Conflicts
4. End of Trade Cycles
5. Promotes Social Welfare

## DEMERITS

1. Red tapism and bureaucracy
2. Absence of incentive
3. Limited freedom of choice
4. Concentration of power

# MIXED ECONOMY

- ◆ Both private and public sector co – exist and work for economic development.
- ◆ It is a Combination of Capitalistic and Socialistic economies.
- ◆ Resources are owned by individuals and the government.

countries – **India , England , France**

# FEATURES OF MIXED ECONOMY

1. Ownership of property

2. Co – existence of public and private sectors

3. Economic planning

4. Solution to economic problems

5. Freedom and control



## **MERITS OF MIXED ECONOMY**

1. Rapid Economic Growth
2. Balanced economic Growth
3. Proper utilization of resources.
4. Economic equality
5. Special advantages to the society.

## **DEMERITS OF MIXED ECONOMY**

1. Lack of Co – ordination
2. Competitive Attitude.
3. Inefficiency
4. Fear of Nationalization
5. Widening inequality

# COMPARISON OF DIFFERENT ECONOMIC SYSTEMS

S.No.	Features	Capitalism	Socialism	Mixedism
1	Ownership of Means of Production	Private Ownership	Public Ownership	Private Ownership and Public Ownership
2	Economic Motive	Profit	Social Welfare	Social Welfare and Profit Motive
3	Solution of Central Problems	Free Market System <small>SamacheerKalvi.Guru</small>	Central Planning System	Central Planning System and Free Market System
4	Government Role	Internal Regulation only	Complete Involvement	Limited Role
5	Income Distribution	Unequal	Equal	Less unequal
6	Nature of Enterprise	Private Enterprise	Government Enterprise	Both Private and State Enterprises
7	Economic Freedom	Complete Freedom	Lack of Freedom	Limited Freedom
8	Major Problem	Inequality	Inefficiency	Inequality and Inefficiency

# CONCEPTS OF MACRO ECONOMICS

## ◆ **Stock and Flow Variables**

◆ **STOCK** - refers to a quantity of a commodity measured at a point of time

**Flow variables** are measured over a period of time

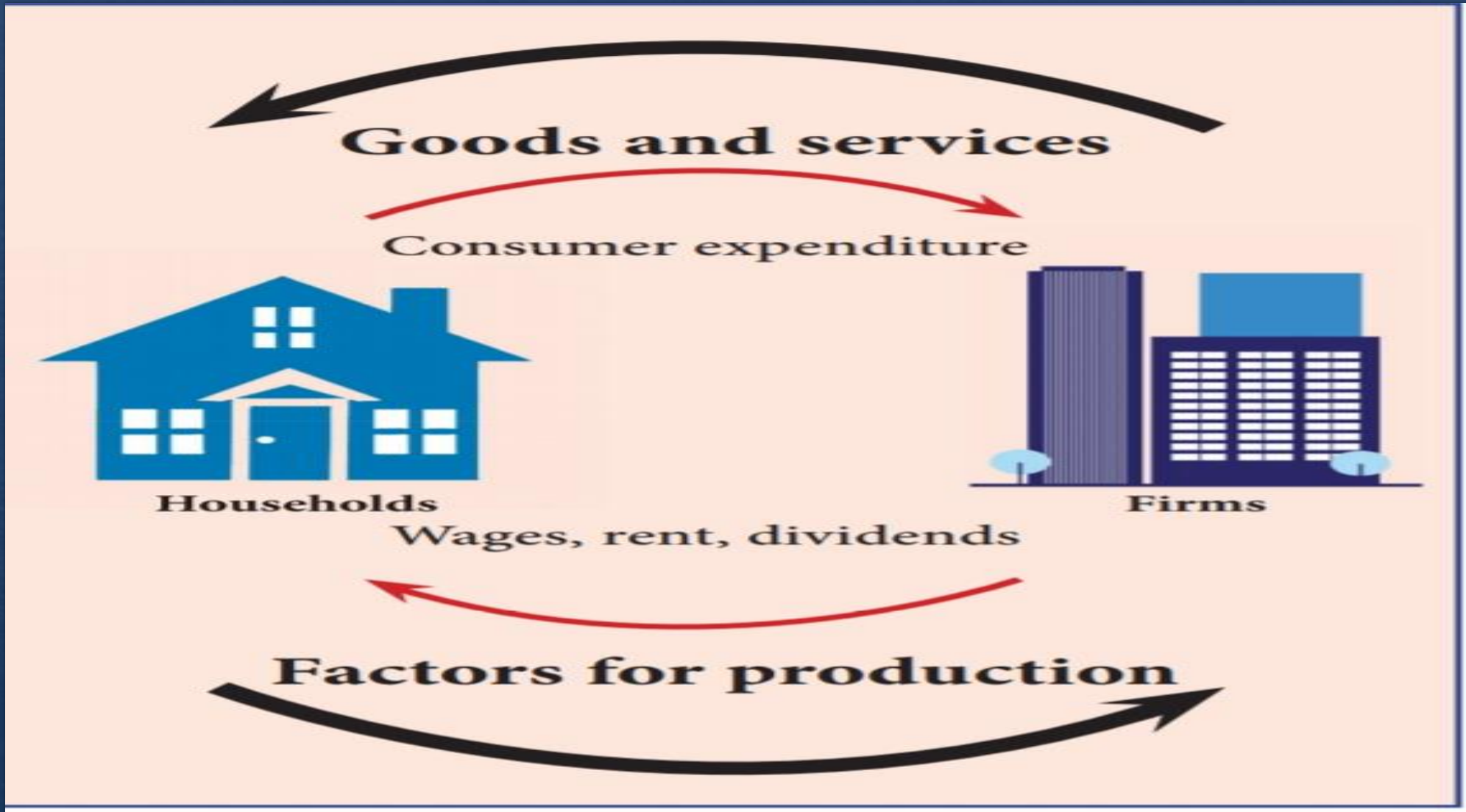
**Economic Model**- A model is a simplified representation of real situation.



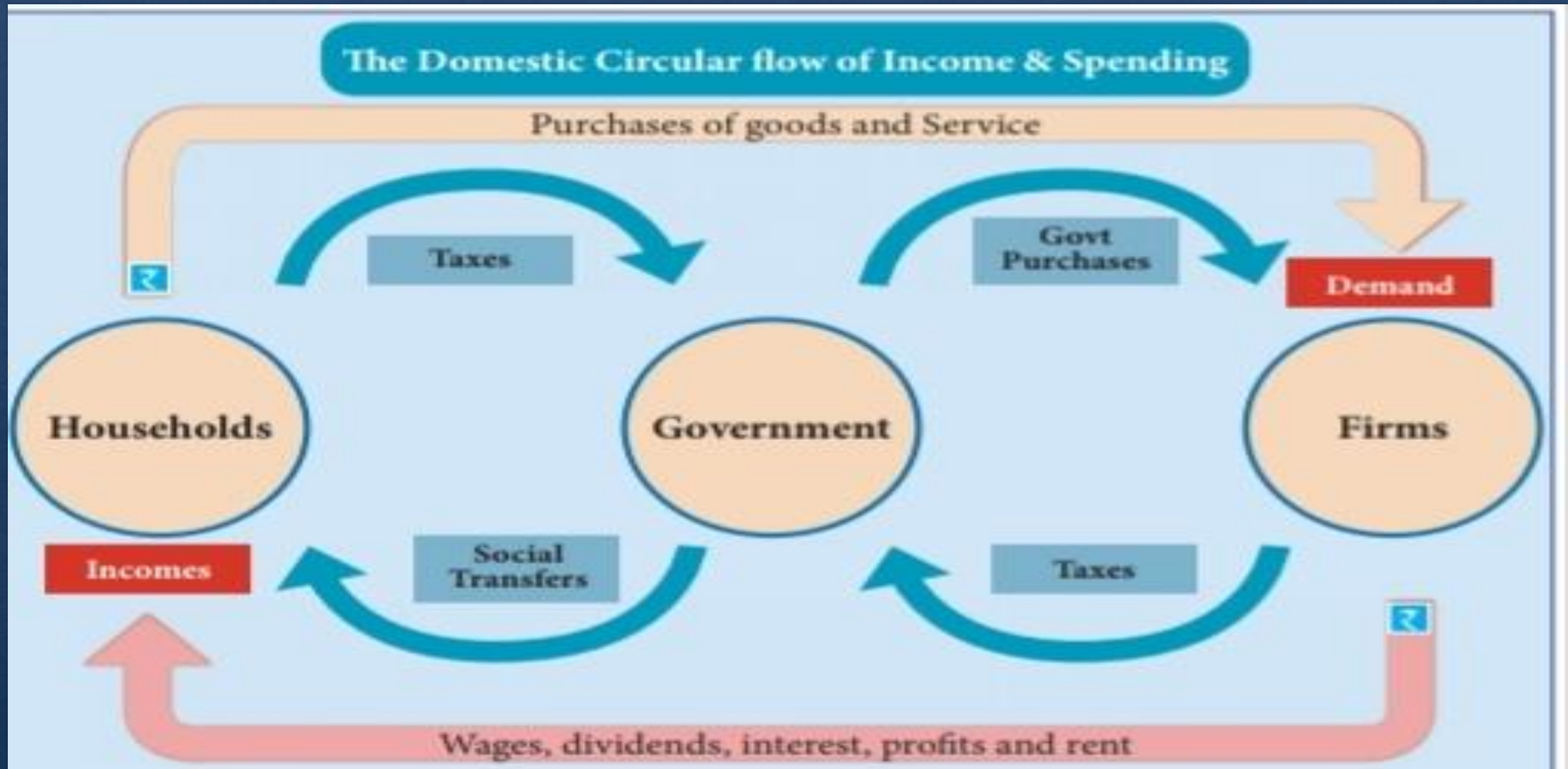
# Circular Flow of Income

- ◆ **Two Sector Model** - Households and firms
- ◆ **Three Sector Model**- Households, firms, government
- ◆ **Four Sector Model**- households, firms govt and rest of the world.

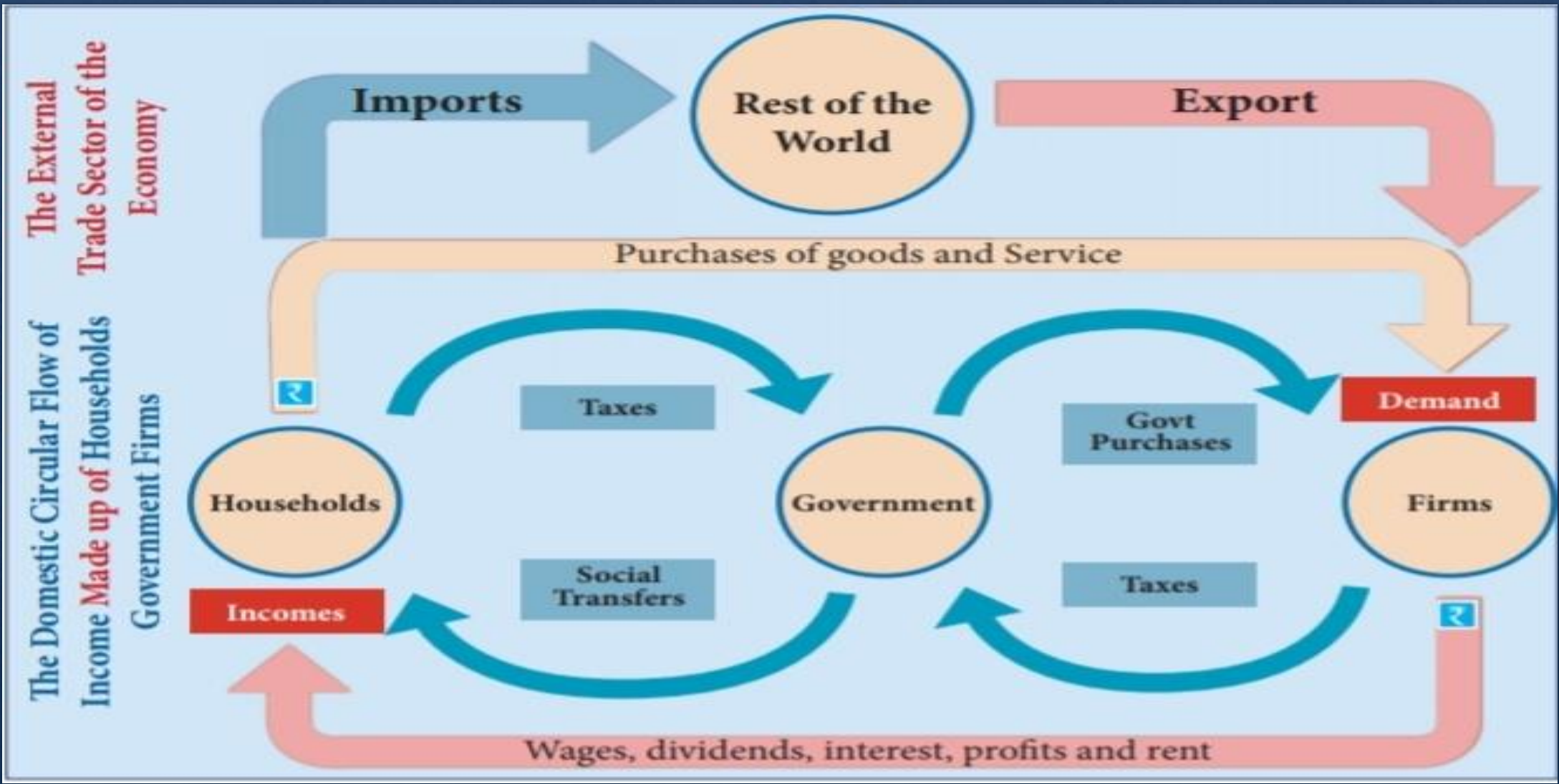




$$Y = C = I$$



$$Y = C + I + G$$



$$Y = C + I + G + (x - m)$$