ECON 112
INTRODUCTION TO ECONOMICS II

Session 1 – Introduction to Macroeconomics

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Session 0 - Course Overview

- The general objective of this course is to introduce students to the basic principles in Macroeconomics- which studies aggregate economic phenomenon such as total output in an economy (rather than the output of an individual firm), general price level of goods and services in the economy (rather than the price of an individual good or service produced by a particular firm).

- Course will be delivered through a combination of lecture slides and tutorial sessions from the Distance Education Centre Tutors.
- Final Grade for this course will be based on 30% from an Interim Assessment which will be web based and a 70% final written exams that will be written at the various centres. Details of the date of both Interim Assessment and Final exam will be communicated to students by the course of the semester.

Course Overview Contd.

- At the end of each session, trial questions will be provided to enhance students' understanding of the covered material.
- Students are also encouraged to familiarize themselves with the SAKAI platform in order to access resources available for this course.
- The basic recommended text for this course are:
  - Hall R.E. and Lieberman M. (2008), Economics***: Principles and Applications*** (4th Edition), Thomson/South Western
  - Mankiw, G. M. (2012), ***Principles of Macroeconomics*** (6th Edition), South Western
- Chapters of Supplementary reading materials will be provided at the end of each session

Course Objectives

- The primary objectives of this course are:
  - to ensure that students are able to define macroeconomics and describe the important macroeconomic goals
  - to ensure that students are able to describe the national output concepts, their measurements and their limitations.
  - to ensure that students are able to describe how inflation is measured using the Consumer Price Index (CPI)
  - to ensure that students are able to describe the different types of unemployment, their determinants and consequences
  - to ensure that students are able to define economic growth and describe its determinants.
  - To ensure that students are able to describe the structure of balance of payments and the different exchange rate regimes.
  - to ensure that students are able to define money and describe the functions of the central bank .

Session 1- Intro to Macroeconomics

- Session Objectives:
  - Be able to define Macroeconomics and explain the difference between Microeconomics and Macroeconomics.
  - Be able to explain the main goals of macroeconomic policy.

Definition of Macroeconomics

- What is Macroeconomics?
  - Macro comes from the Greek word *makros*, meaning "large"
  - Studies the behavior of the overall economy
  - it examines the behavior of economic aggregates such as aggregate income, consumption, investment, and the overall level of prices.
  - It deals with aggregate behaviour- which is described as the behavior of all households and firms together.

Difference Between Microeconomics and Macroeconomics

- Microeconomics is the study of individual economic units of an economy whereas macroeconomics is the study of aggregates of an economy as a whole.
  - For example, when we study an individual flour mill company manufacturing flour mill, our study is micro analysis but if we study the entire flour mill manufacturing sector (consisting different individual flour mill companies in the country/economy) , our study is macro analysis.
  - It is however important to note that both Microeconomics and Macroeconomics are inter-dependent and complementary.

Differences Contd.

Microeconomics	Macroeconomics
1. It is the study of individual economic units of an economy	It is the study of economy as a whole and its aggregates.
2. It deals with individual income, individual prices and individual output, etc.	It deals with aggregates like national income, general price level and national output, etc.
3. Its Central problem is price determination and allocation of resources.	Its central problem is determination of level of income and employment.
4. Its main tools are demand and suply of a particular commodity/factor.	Its main tools are aggregate demand and aggregate supply of economy as a whole.
5. It helps to solve the central problem of what, how and for whom to produce in the economy	It helps to solve the central problem of full employment of resources in the economy.
6. It discusses how equilibrium of a consumer, a producer or an industry is attained.	It is concerned with the determination of equilibrium level of income and employment of the economy.
7. Price is the main determinant of microeconomic problems.	Income is the major determinant of macroeconomic problems.
8. Examples are: individual income, individual savings, price determination of a commodity, individual firm's output, consumer's equilibrium.	Examples are: National income, national savings, general price level, aggregate demand, aggregate supply, poverty, unemployment etc.

Macroeconomic Goals

- The three main goals of macroeconomic policy are:
  - Output Growth/ Economic Growth
  - Low Inflation/ Price Stability
  - Low Unemployment

Goal 1- Output Growth

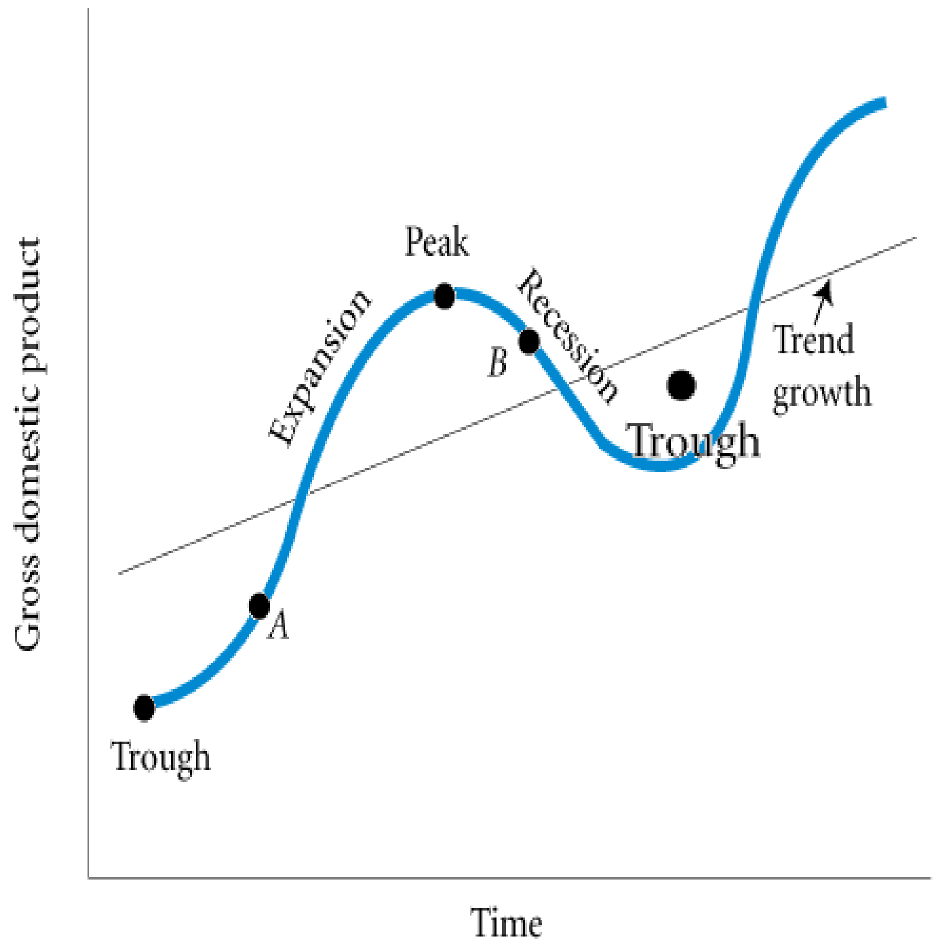
- Each government or economy is interested in increasing the production of goods and services both in the short- run and in the long-run.
- In increasing output, the ultimate goal is to get closer and closer to the economy's potential output, which is the maximum sustainable output of goods and services that a nation can produce
- Increasing a country's output towards this potential output level is important because it has a direct impact on poverty levels and standard of living of people within the economy through the real GDP.
- This is because a sustained increase in output levels increases a country's ability to finance education, public health, environmental improvement etc. which go a long way to improve the general quality of life.

Goal 1- Output Growth Contd.

- To achieve this goal, governments are usually concerned about the following:
- Short-run and Long-run changes in output growth
  - Here, the government is more concerned about the fluctuations in the business cycle and what causes these fluctuations.
  - For example, the government is interested in determining the expansionary and contractionary periods in an economy.
  - Knowing what is causing these cycles in the economy will better inform the managers of the economy what measures to put in place for short run output growth.

Goal 1: Output Growth Contd.

- The fluctuations in output growth is illustrated using the business cycle diagram.
- the economy is expanding as it moves through point *A* from the trough to the peak.
- the economy is in a contractionary period as it moves from a peak down to a trough, through point *B*, t



Goal 2: Price Stability/ Low Inflation

- A low inflation rate or stable price levels is another important goal of governments or managers of economies.
- This is due to the fact that high price levels or unstable prices levels is very costly to society.
- With high inflation, the purchasing power of money erodes quickly. This forces people to spend money as soon as they get it which negatively impacts the overall growth of the economy.

Goal 2: Price Stability/ Low Inflation Contd.

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Goal 2: Price Stability/ Low Inflation Contd.

- It is worth noting that price stability is not necessarily the same as zero inflation, but instead steady levels of low-moderate inflation is often regarded as ideal.

- Zero inflation is often undesirable in an economy.

- The most measure of inflation is the Consumer Price Index (CPI). The CPI is a measure of the average change in the general prices of goods and services over time.

- The CPI represents changes in prices of all goods and services purchased for by households.
- Income taxes and investment items, such as stocks, bonds, and life insurance, are not included in its computation.

Goal 3: Low Unemployment

- Maintaining a low rate of unemployment is another important task of government or managers of economies. Unemployment is described as the situation where people who are available to work and are searching for work are not able to find work.
- The most common measure used is the unemployment rate.
    - The unemployment rate is the percentage of the labor force that is willing and able to work, does not currently have a job, and is actively looking for employment.
    - The labor force includes those who are employed and those who are unemployed
- Stable employment does not mean zero unemployment.

Goal 3: Low Unemployment Contd.

- The Natural Rate of Employment/ Full Employment is described as the unemployment rate that is consistent with an economy operating at potential GDP. In some economies, Full Employments is associated with unemployment rate of 5% -7%

- There are four types of unemployment:
  - Frictional Unemployment
  - Structural unemployment
  - Cyclical unemployment
  - Seasonal unemployment

Session Reading List

- Hall R.E. and Lieberman M. (2008), Economics***: Principles and Applications*** (4th Edition), Thomson/South Western

  - Chapter XXXX

- Lipsey, R.G. and K. A. Chrystal (2004), ***Economics*** (10th Edition), Oxford University Press

  - Chapter xxxxx

- Mankiw, G. M. (2012), ***Principles of Macroeconomics*** (6th Edition), South Western

  - Chapter xxxx

Trial Questions

- Refer to Appropriate Folder on SAKAI