

EXAM REVISION

Measuring Macroeconomic Performance:

- Lecture 1 (Chapter 1 and 2) Introduction: What is macroeconomics? [Pages 1-3]
- Lecture 2 (Chapter 24) Measuring a nation's income [Pages 4-7]
- Lecture 3 (Chapter 25) Measuring the cost of living [Pages 7-10]
- Lecture 4 (Chapter 28) Unemployment [Pages 10-15]

Long Run Macroeconomics:

- Lecture 5 (Chapter 26) Production and growth [Pages 15-21]
- Lecture 6 (Chapter 27) Saving, investment and the financial system [Pages 21-28]
- Lecture 7 (Chapter 29) The Monetary System [Pages 28-34]
- Lecture 8 (Chapter 30) Inflation [Pages 34-41]

Short Run Macroeconomics:

- Lecture 9 (Chapter 33) Aggregate demand and aggregate supply [Pages 41-52]
- Lecture 10 (Chapter 34) The influence of monetary and fiscal policy [Pages 52-59]

Open Macroeconomics:

- Lecture 11 (Chapter 31) Open Macroeconomics [Pages 59-65]

LECTURE 1:

Economics:

- Used in everyday life – study the decisions of individuals, firms and the government
- Economics as a discipline – “an intellectual pursuit is its position at the intersection of formal theory, statistical analysis, and human events – coupled with its ultimate potential to improve peoples’ everyday lives”
- **Economists:**
 - Are extremely influential behind almost all economic policy – the carbon tax, mining tax, interest tax...
 - Know how the economic policy works, giving extra competitive edged at a workplace
 - E.g.: people who do well in the stock market know how to read macroeconomics data

Basic Economics Principles:

Scarcity:

- Refers to the limited nature of society's resources
- The situation in which unlimited wants exceed the limited resources available to fulfil them
 - E.g.: Hasan wished he had more time to study but his time was a scarce resource
- We encounter scarcity in every decision we make
- Resources – land, labour, capital, enterprise

- 3 main questions:
 - What are we going to produce?
 - How are we going to combine these resources?
 - Who gets all the stuff we make?
 - ❖ E.g.: a household must decide who does the chores and how to allocate its scarce resources
- Society must decide what jobs will be done and who will do them. It must also allocate the goods and services that are produced
- Management of society's resources is important because we cannot produce all the goods and services people wish to have

Economics:

- The study of how society manages its scarce resources
 - E.g.: economics helped Jing to understand the production, consumption and transfer of wealth
- Economics is a social science concerned with the allocation of scarce/limited resources between unlimited and often competing needs & wants
- In most societies, resources are allocated through the combined choices of millions of households and firms
- Economists study how people make decisions: how much they work, what they buy, how much they save and how they invest their savings
- Economists also study how people interact with one another
 - For instance: economists examine how the buyers and sellers of a good interact to determine the price at which the good is sold and the quantity that is sold
 - This is looking at the demand & supply model – Market mechanism → where price is determined

Opportunity Cost:

- The best alternative that must be given up to obtain some item
 - E.g.: My opportunity cost of sitting through this lecture is reading a book and enjoying an espresso at a local café
- The cost of something is what you give up to get it
- Decisions require comparing costs and benefits of alternatives
 - Whether to go to university or to work?
 - Whether to go to lectures or sleep in?
- The opportunity cost of an item is what you give up to obtain that item (it seems that this way of thinking about cost is only applicable in economics)
- What is your opportunity cost (being in the lecture) today?
 - The value of the best alternative foregone when action chosen
 - $\text{Opp.Cost} = \text{quantity given up} / \text{quantity gained}$

The Economist as a Scientist:

- Economists try to approach problems with a scientist's objectivity
- Observations inspire economic theory
- In turn, economic theory is tested by comparing theoretical predictions against data gathered in the real world
- While it is difficult to conduct economic experiments, events in the real world give rise to natural experiments that can be studied by economists

The Role of Assumptions in Economics:

- Many economic models involve unrealistic assumptions

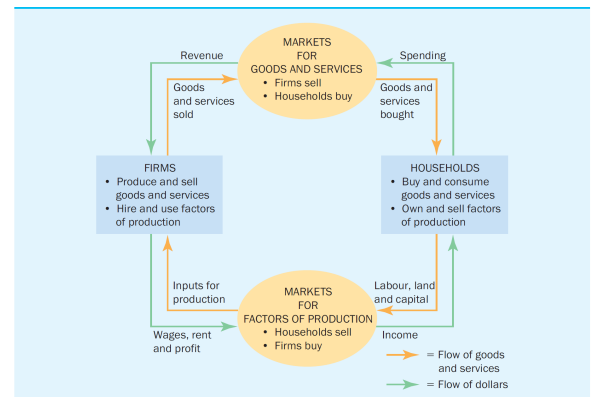
- We might assume that there are only two goods in the world, or that the firms and consumers in a market are only concerned with what they buy and sell today
- Economics deals with generalities/statements about regularities concerning economic behaviour
- Models are simplified representations of the real world
- Assumptions help us to simplify complex situations, focusing our attention on the details that are most relevant to the problem at hand.
- Using assumptions we can construct economic models to learn about the world. Our models typically consist of diagrams and equations
- Ceteris paribus – holding everything else constant

The Circular Flow Diagram:

- The value of our resources (labour, land, capital) must be equal to the value of income received by these resources
- The value of our resources must be equal in value to the goods and services produced and sold in our economy

The value of production/output = value of income generated in the production of the goods and services = value of spending

- Production generates income, which in turn results in the purchasing power that created our demand for goods and services



Microeconomics:

- The study of how households and firms make decisions and how they interact in markets
 - E.g.: microeconomics focuses on individual markets, examining how incentives and trade-offs influence buyer and seller behaviour

Macroeconomics:

- The study of **economy-wide phenomena**, including **inflation**, **unemployment** and **economic growth** (RGDP)
 - E.g.: the setting of monetary policy depends primarily on macroeconomic factors

Macroeconomics Concern About The Following:

- Why some countries are rich and others are poor?
- Why prices change quickly in some period, but more stable in other?
- Why do jobs grow in some years, but stagnate in other years?

The Economist as Policy Advisor:

- Economists are experts
- In government, the advice of economists can have a significant impact on the development of public policy
- In business, the advice of economists is important for formulating corporate strategy

TO BE CONTINUED...