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Week 1: Macroeconomics and Measuring Performance/Output (Ch 1 and 2.1-2.4)

CHAPTER 1 – INTRO TO MACROECONOMICS

What does Macroeconomics study?

- The study of the performance of the national economy as well as the policies used to improve that performance
- Macroeconomists make heavy use of aggregation, the adding up of individual economic variables into economy wide totals to study the economy

Major macroeconomic issues studied

1. Economic Growth and Living Standards

- a. Standard of living
 - ❖ Degree to which people have access to goods and services that make their lives easier, healthier, safer and more enjoyable
- b. Scarcity Principle
 - ❖ Having more of one good means having less of another
- c. Economic growth
 - ❖ Process of steady increase in quantity + quality of goods + services the economy can produce

2. Productivity

- a. Labor Productivity
 - ❖ Output per employed worker or hour of work

3. Recessions and Expansions

- a. Recessions/Contractions
 - ❖ Slowdowns in economic growth
 - ❖ Depressions – Severe economic slowdowns
 - ❖ Low employment, less wage increases, lower profits, companies go out of business
- b. Expansions
 - ❖ Rapid economic growth
 - ❖ Booms - particularly strong economic expansions
 - ❖ High employment, wage increases, higher profits, companies thrive

4. Unemployment

- a. Unemployment rate
 - ❖ Key indication of the state of the labor market
 - ❖ High unemployment rate → work is hard to find, people who do have jobs find it harder to get promotions/wage increases

5. Inflation

- a. Rate of inflation
 - ❖ Rate at which prices in general are increasing over time
 - ❖ High inflation → People on fixed incomes (e.g. pensioners) can't keep up with rising cost of living

6. Economic Interdependence among nations

- a. Trade Imbalances
 - ❖ When the quantity of goods and services that a country exports differs significantly from the quantity of goods and services imported.
- b. Trade deficit
 - ❖ Imports into Australia > goods and services Australia is exporting
- c. Trade surplus
 - ❖ Exports > imports

Macroeconomic policy

Types of macroeconomic policies (gov policies that affect economic performance):

1. Monetary policy

- Determination of the nation's money supply
 - Affects national output, employment, interest rates, inflation, stock prices + the international value of the dollar
 - Controlled by a central bank (gov institution) in all countries. RBA is Australia's central bank

2. Fiscal Policy

- Decisions that determine the government's budget, including the amount and composition of government expenditures and government revenues
 - Balance between gov spending + taxes
 - Deficit – gov spends more than they collect in taxes
 - Surplus – gov spends less than they collect in taxes

3. Structural Policy

- Gov policies aimed at changing the underlying structure, or institutions, of the nation's economy.

Positive vs Normative analyses of macroeconomic policy

1. Positive analysis

- a. an objective analysis aimed at determining only the economic consequences of a particular policy, not whether those consequences are desirable

2. Normative analysis

- a. Recommendations on whether a particular policy *should* be implemented.

Aggregation

- The adding up of individual economic variables to obtain economy-wide totals.