An overview of Macroeconomics

Definition of Macroeconomics

Macroeconomics: Is the study of the behaviour of the economy as a whole. It concerns the business cycles that lead to unemployment and inflation, as well as the longer-term trends in output and living standards.

Macroeconomic Goals

1. Output: High level and sustainable growth.
2. Employment: High level of employment and low level of unemployment
3. Stable Price level
4. International trade: Export and import equilibrium and exchange rate stability

1. Output
• The ultimate objective of economic activity is to provide the goods and services that the population desires.
• The most comprehensive measure of the total output in an economy is the Gross Domestic Product (GDP).

2- Employment
• The unemployment rate: measures the fraction of the labor force that is looking for but cannot find the work.

\[
\text{The unemployment rate}=\frac{\text{No. of unemployed individuals}}{\text{labor force (LF)}} \times 100
\]
The labor force: includes all employed persons and those unemployed individuals who are seeking jobs.

\[ LF = \text{employed individuals} + \text{unemployed individuals} \]

3- Stable Prices

- The third macroeconomic goal is to maintain stable prices within free markets (prices are determined by demand and supply with no interference from government).

- Preventing the overall price level from rising or falling rapidly because rapid price changes lead to economic inefficiency.

- The most common measure of the overall price level is the consumer price index (CPI).

- The rate of inflation measures changes in the level of prices. It denotes the rate of growth or decline of the price level from one year to the next.

**Inflation or Deflation**

- **An Inflation** occurs when the level of price is growing (the rate of inflation is positive).

- **A Deflation** occurs when the level of price declines (the rate of inflation is negative).

- A disinflation is a decrease in the rate of inflation. The slowing of the rate of inflation per unit of time.
4- International trade

• International trade is becoming increasingly important to most country’s economy.

• International trade includes: import and export of goods, services, capital, borrowing and lending money etc.

• Net export is the numerical difference between the value of a country’s exports and the value of its imports.

  Net export = exports - imports

• A trade surplus exists when net export is positive, (exports > imports)

• A trade deficit occurs when net export is negative (exports < imports)

**Exchange Rate Stability**

• Foreign exchange rate represents the price of own currency in terms of the currency of other nation.

• When a nation’s exchange rate rises, the prices of imported goods fall while exports become more expensive for foreigners so the nation becomes less competitive in world markets and net exports decline.

• Changes in exchange rates can also affect output, employment, and inflation.