

# INTRODUCTION TO MACROECONOMICS

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# ECONOMIC THEORY

*Economic knowledge is historically determined.....what we know today about the economic system is not something we discovered this morning but is the sum of all our insights, discoveries and false starts in the past, Without Pigou there would be no Keynes; without Keynes no Friedman; without Friedman no Lucas; without Lucas no..... (M Blaug, 1991)*

# WHY DOES MACROECONOMICS STUDY?

Macroeconomics, the study of the economy as a whole

It attempts to answer the following questions:

# GROWTH DIFFERENTIALS OR CHANGES

Why some countries experience rapid growth while others mired in poverty?

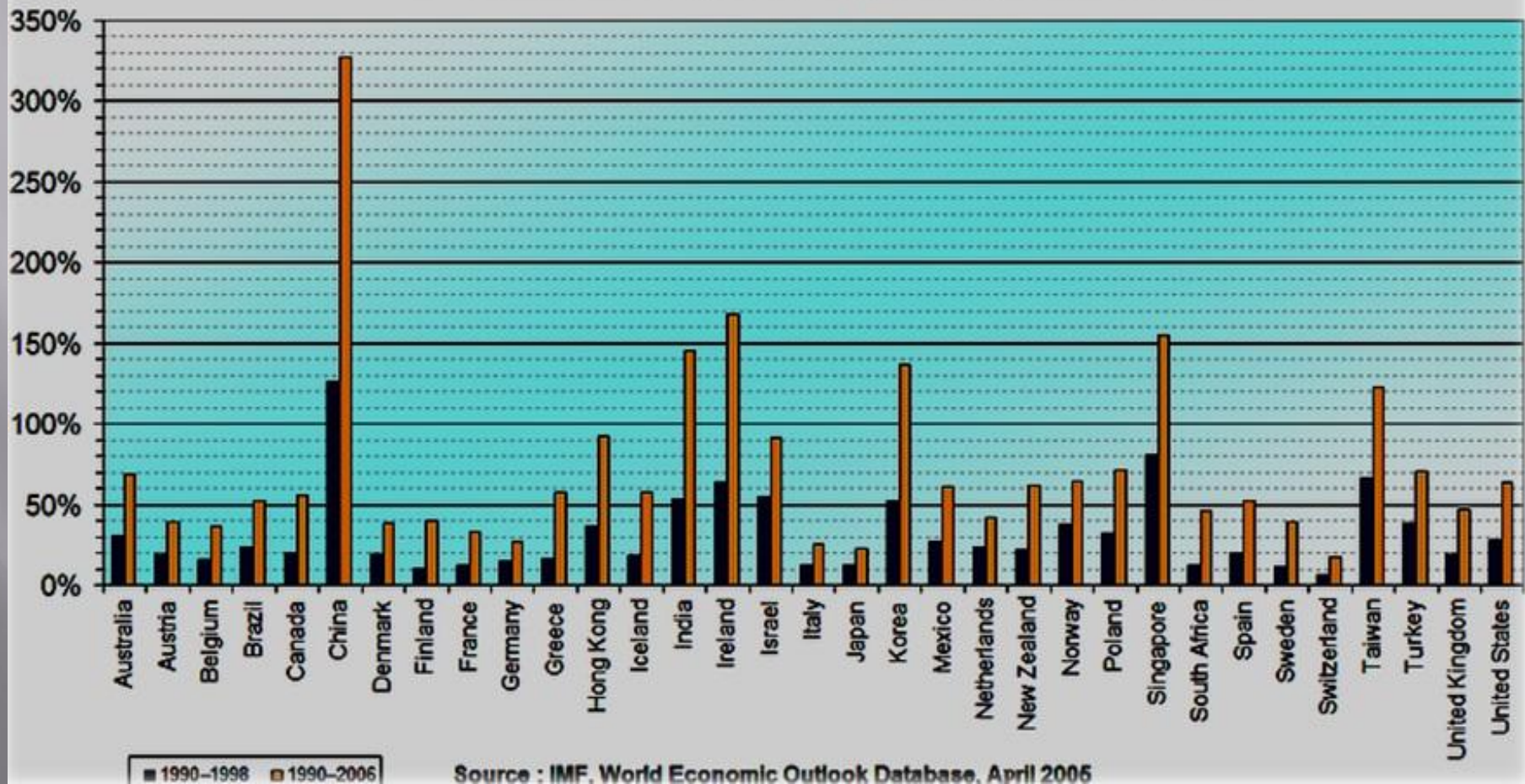
Or why the same country experiences highs and lows in the growth in different times?





# GROWTH CHANGES IN DIFFERENT TIMES

GDP accumulated growth, in percent, constant prices



Source : IMF, World Economic Outlook Database, April 2005

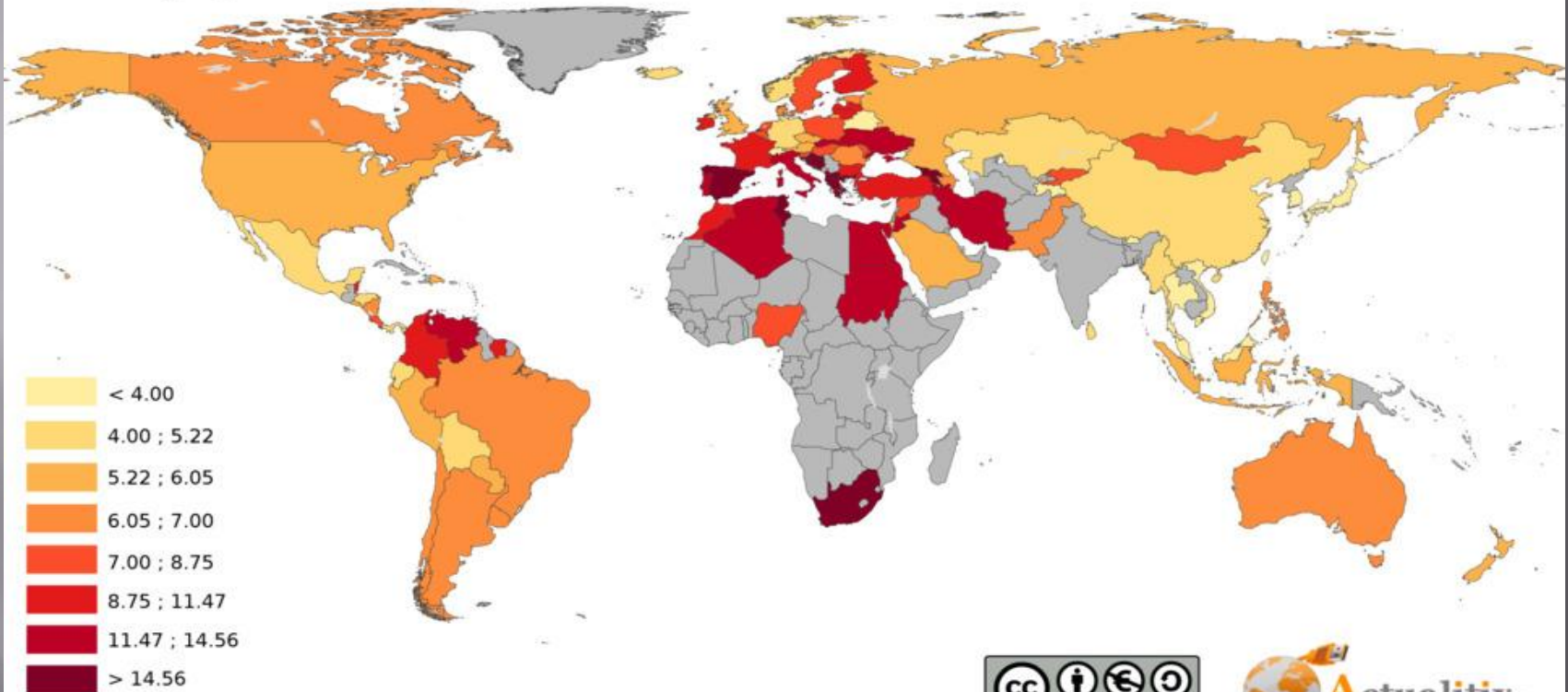
# EMPLOYMENT DIFFERENTIALS

Why some countries experience low rate of unemployment while others mired in poverty?

Or why the same country experiences highs and lows rate of unemployment in different times?

# UNEMPLOYMENT DIFFERENTIALS

Unemployment Rate (%)



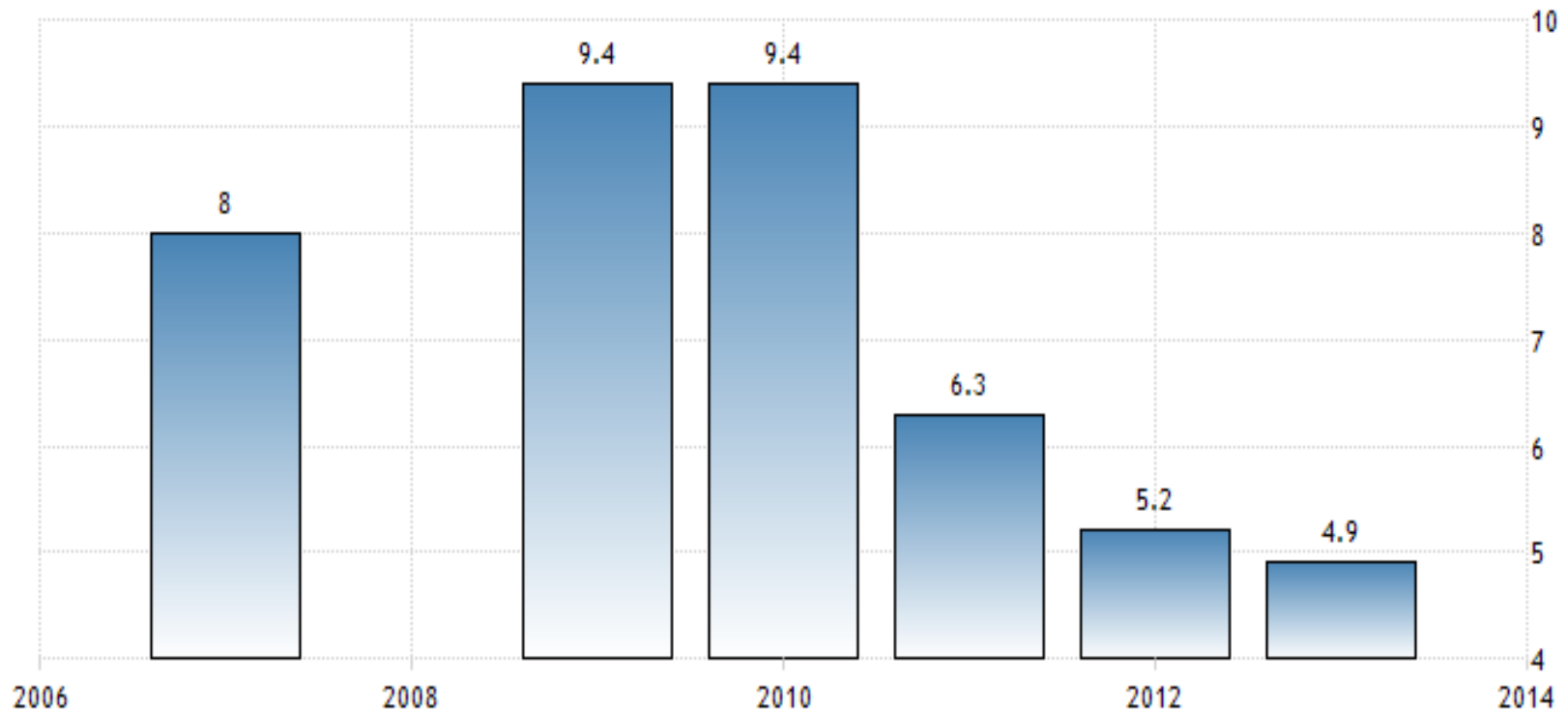
Source : IMF - 2015  
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# UNEMPLOYMENT DIFFERENTIALS IN DIFFERENT TIMES

INDIA UNEMPLOYMENT RATE



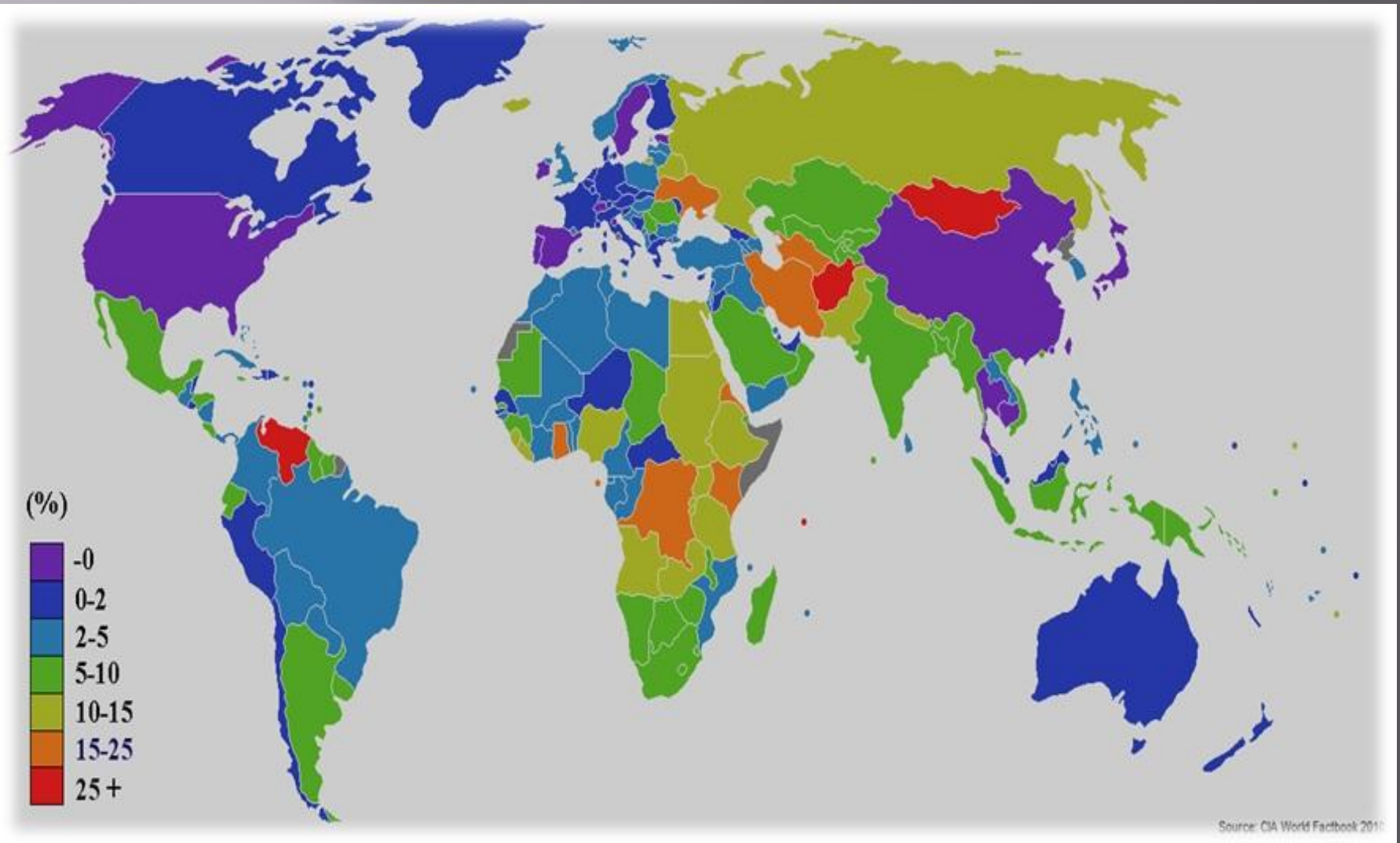
SOURCE: TRADINGECONOMICS.COM | MINISTRY OF LABOUR AND EMPLOYMENT, INDIA

# INFLATION DIFFERENTIALS

Why do some countries have high rates of inflation while others maintain stable prices?

Or Why the same country faces different rate of inflation in different times.

# INFLATION DIFFERENTIALS

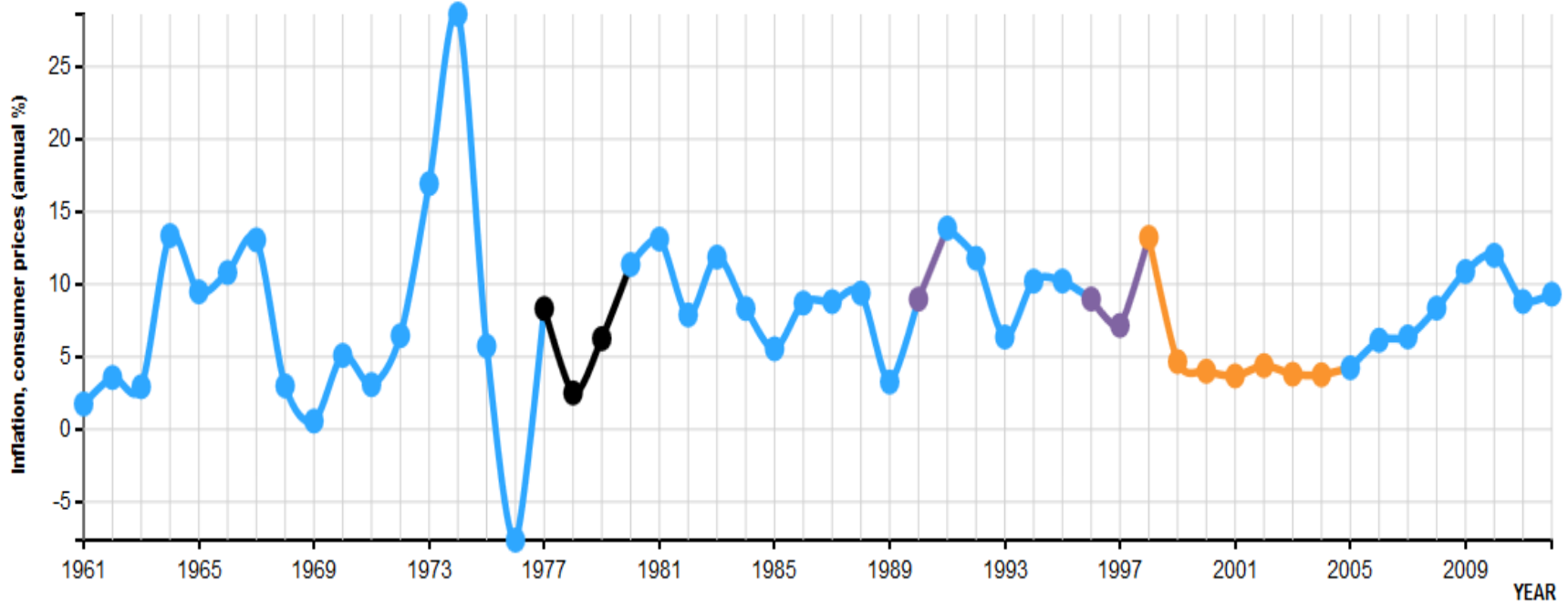


# DIFFERENT RATE OF INFLATION IN DIFFERENT TIMES

## INDIA INFLATION RATES DURING DIFFERENT REGIMES

Hover cursor over image to display inflation figures

CONGRESS JANATA PARTY JANATA DAL BJP



Data sourced from World Bank

Based on a data visualisation by Gramener

# PRIME CONCERN OF MACROECONOMICS

The structure, performance and behaviour of the economy as a whole.

To analyze the determinants of the main aggregate trends in GDP, unemployment, inflation, international transactions.

To explain the cause and impact of short-run fluctuations

To identify the major determinants of the long-run path of GDP



# ROLE OF GOVERNMENT

How can government policy reduce the frequency and severity of these episodes?

# IMPORTANCE OF MACROECONOMICS

Macroeconomic events have an important influence on the lives and welfare of all of us.

# EVERYDAY NEWSPAPERS

BusinessLine

## Taxmen to go slow on GST enforcement for 6 months

By PTI  
Jul 19, 2017 11:04 pm



Revenue authorities will go slow in undertaking enforcement actions under GST for the first six months as they want industry to settle down into the new indirect tax regime. Central Board of Excise and Customs (CBEC) Chairperson Vanaja Sarma said there will be genuine errors due to lack of understanding in the initial days.

"CBEC has enforcement authorities and I have specifically said the first three to six months are a go-slow.... I don't want small cases to be made," Sarma said at a CII event here.

10:05 AM

## Rupee drops by 11 paise against dollar in early trade

PTI  
Updated: Jul 24, 2017 11:00 am IST



Indian Rupee is trading high against US Dollar. A scene of US Dollars being counted, in New Delhi. Photo: The Hindu

The rupee on Monday dropped by 11 paise to 64.43 against the U.S. currency in the opening session due to fresh dollar demand from importers.

The rupee opened lower at the interbank foreign exchange market and fell 11 paise to 64.43

BusinessLine

## India set to achieve 7.4% growth in 2017: ADB report

By Our Bureau  
Jul 20, 2017 10:22 pm

India, which is the largest economy in South Asia, is expected to achieve projected growth rate of 7.4 per cent in 2017 and 7.8 per cent in 2018, primarily from strong consumption, a new Asian Development Bank (ADB) report has said.

In a supplement to the Asian Development Outlook 2017 report, ADB also upgraded its growth outlook for Developing Asia from 5.7 per cent to 5.9 per cent in 2017 and from 5.7 per cent to 5.8 per cent for 2018. The smaller uptick in the 2018 rate reflects a cautious view on the sustainability of the export push. The report said economic prospects in Developing Asia for 2017 improved on the back of stronger-than-expected export demand in the first quarter of this year.

The news app that's making the headlines.

10:11 AM

m.timesofindia.com/business/inc

TOI GET APP

GEOJIT NO DIGITAL WITH 100% ONLINE FINANCIAL PLANNING

## India's economy to grow faster than China: IMF

PTI | Updated: Jul 24, 2017, 04:49PM IST




Visit Site

BusinessLine

## Exports grow in June, but at a slower 4.39%

By Our Bureau  
Jul 14, 2017 11:27 am



Trade deficit widens to \$12.95 billion


The news app that's making the headlines.

10:15 AM


SHARE A+ A-

## India should target inflation at 4-5%, says US expert

IANS | New Delhi Jul 25, 2017 04:26 AM IST




Nerolac Wall Paints



Market News

## Dollar recovers from 13-month low on strong PMI readings

Reuters  
Jul 25, 2017, 08:09 hrs IST



The 10-year US Treasury yield rose to 2.257 per cent early on Tuesday as investors bet on a recovery in the economy.

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10:17 AM

https://thewire.in/159457/wat

## Watch: The Story of Growing Unemployment in India

BY M.K. VENU ON 20/07/2017 • 2 COMMENTS

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Santosh Mehrotra and M.K. Venu analyse what the numbers from the latest available employment data say.



10:20 AM


https://scroll.in/article/843831/jo

Home Video The Latest The Reel The Field

## Jobless growth: Amid claims of rising unemployment, NITI Aayog blames faulty government data

The think tank has recommended conducting individual and household surveys annually instead of erratically.

by Mayank Jain  
Published Jul 14, 2017 • 08:49 pm




Young people writing a job application exam in India

10:20 AM

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Santosh Mehrotra and M.K. Venu analyse what the numbers from the latest available employment data say.



# MACROECONOMICS TOUCH ALL OUR LIVES

- Senior citizen living on fixed incomes wonder about the how fast the price changes.
- Recent college graduate always ready with their resume when the economy will boom and they get a job.
- Businessmen forecast how fast the income of the consumers will go up.

# MACROECONOMICS AND ITS IMPORTANCE IN POLITICS

Popularity of incumbent president/  
prime minister depends on  
economic performance such as  
business cycles, inflation,  
unemployment, growth, budget  
deficits



# IF THE ECONOMY IS GOING OUT OF CONTROL

Then .....Questions confronting the economists ....

Are they due to

Specific large shocks?

Failure of adjustment mechanisms if any?

Result of policy errors ?

Or some combination of all three?

# DESIGNING STABILIZATION POLICY

Learn from history

Keep in view the theoretical and empirical research

Understand factors for the long-run growth of an economy and the short-run fluctuations

# REFERENCES

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Thank You