Macroeconomics

Lily Iswary
Assistant Professor
Department: Management (BBA)

National Income Accounts:

It is a government book keeping system that measures a country's economics activity offering into how an economy is performing. A system will include total revenue by domestic corporations, wages paid and sales and income text data for companies.

National income accounting system allow countries to assess the current standard of living or the distribution of income within a population as well as the effect of various economics policies.

Formula:

GDP = consumer spending + business investment + government spendings + net exports.

Gross Domestic Product:

GDP is the total monetary or market value finished goods and services produced within a country's borders in a specified time period. GDP provides and economic used to estimate the size of an economy and its growth rate.

GDP can be calculated in three ways, using expenditures, production or incomes and it can be adjusted for inflation and population to provide deeper inside.

Gross= Total (All)

Domestic= Within a country's borders

Product= The value of all goods and services produced

Calculation of GDP:

1. Income Approach:

   Calculate income earned by all factors of production. Four factors of production such as Land, labour, capital and management (organization)

   Rent + Wages + Interes + Profit

2. Expenditure approach:

   Sum of money spent on goods and services.

   GDP = Consumption + Investment + Government Expenditure + Exports- Imports

   Consumption ↓ Money spent of Buying goods & Services.

   Investment ↓ Money invested by house hold.

   Government Expenditure ↓ Money spent on public welfare.

   Exports- Imports ↓ X-M

Components of Aggregate Demand:

- Private consumption Expenditure (C)
- Investment Expenditure (I)
- Government Expenditure (G)
- Net Export (Export - Import (X-M)

Formula:
AD= C + I + G+ (X-M)

Private Consumption Expenditure (C):

Consumption expenditure or private households consumption expenditure refers to the total spending of an individual or a household on the purchase of goods and services. In an economy during an accounting year. The spending of a consumer is effected by several factors like disposal income, per capita income, debt, consumer extension of future economy condition and interest rate.

Investment Expenditure (I):

Investment expenditure refers to the company's total expenditure on acquiring new capital goods and services like machinery and equipment, changes in inventories and investment in non-residential and residential structures. Such as interest rate, future expectation of the economy and incentive of the government.

Government Expenditure (G):

Government expenditure is an total expenditure made by the government on the equation of public rules and social services to satisfy the need of the overall economy. It includes all the consumption and investment expenditure like infrastructure, investment, defence and military equipment, public sector facilities, health care services, government exployees.

Net Export (X-M):

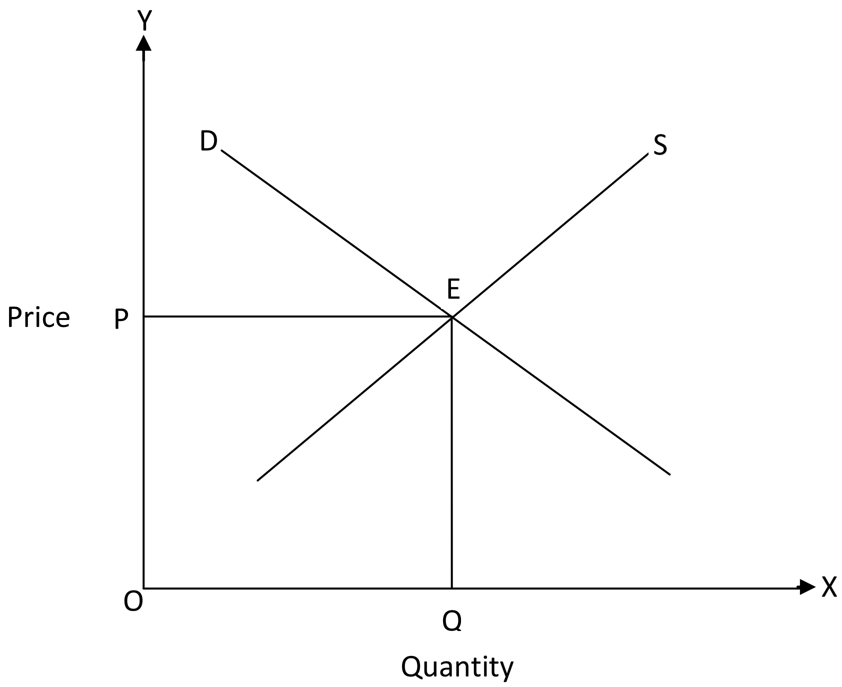
The term total export refers to the demand for the product that are produced by domestic producers but are sold to the rest of the world, while total import refers to the demand for products that are manufactured outside the domestic boundaries of the country but are imports to the country. Net exports refers to the difference between the total export (X) and total import (M) of the country.

<u>Changes in equilibrium:</u>

Step1: Raw demand and supply curve showing the market before the economic changes take place. Think about shipped variable for demand and the shift variable or supply.

Step2: Decide whether the economic change affect demand or supply. In other words, it refers to something in the list of demand shift variables or supply shift variable.

Step3: Determine whether the effect on demand or supply cause the curves to shift to the right or to the left and sketch the demand or supply curve on the diagram.



OX axis is the quantity

OY axis is the price

P is the price

Q is the quantity

D is the demand curve

S is the supply curve

E is the equilibrium point

Step4: Identify the new equilibrium and then compare the original equilibrium price and quantity to the new equilibrium price and quantity.

Equilibrium Income:

Definition:

The equilibrium level of the national income is defined as that point where the aggregate supply and the demand are equal to each others.

Formula:

Y=C+I+G
Y= is the aggregate supply
C= consumption expenditure
I= investment expenditure
G= Government expenditure

Fiscal Policy (measurement):

1.Government expenditure:

During inflation, they aggregate demand increases for too much due to unregulated private expenditure. The increases private expenditure passes heavily against the limited supply of goods and services available in the market.

2.Taxation:

This acquire added significant as an only inflationary weapon during a inflationary boom.The problems during inflation as to reduce the size of disposable income in the hands of the general public in view of the limit supply of goods and services in the market.

3.Public borrowing:

The object of public borrowing is to take away from the public excess purchasing power which is left supply and prevent further credit expansion. Any inflation debt management usually required the retirement or payment of bank held debt out of the budget.

MonetaryPolicy:

The term monetary policy may be interpreted in two senses-

(i) Broad sense

(ii) Narrow sense

The term monetary policy refer to the monetary system along with the measure taken to manage the money and credit supplying the economy