

Reading

Macroeconomics is the field of economics that studies the behaviour of the aggregate economy as a whole. It examines economy-wide phenomena such as changes in unemployment, national income, rate of growth, gross domestic product (GDP), inflation and price indices. Macroeconomics can be best understood in contrast to microeconomics, which considers the decisions made at an individual or firm level. Macroeconomics considers the larger picture, or how all of these decisions sum together. The factors that are studied by macro and micro will often influence each other, such as the current level of unemployment in the economy as a whole will affect the supply of workers which an oil company can hire from, for example. An understanding of microeconomics is crucial to understand macroeconomics.

While macroeconomics is a broad field of study, there are two areas of research that are emblematic of the discipline: the attempt to understand the causes and consequences of short-run fluctuations in national income (the business cycle), and the attempt to understand the determinants of long-run economic growth (increases in national income). Macroeconomic models and their forecasts are used by governments to assist in the development and evaluation of economic policy.

Macroeconomics encompasses a variety of concepts and variables, but there are three main topics for macroeconomic research. Macroeconomic theories usually relate the phenomena of output, unemployment, and inflation.

National output is the total value of everything a country produces in a given time

period. Everything that is produced and sold generates income. Therefore, output and income are usually considered equivalent and the two terms are often used interchangeably. Output can be measured as total income, or, it can be viewed from the production side and measured as the total value of final goods and services or the sum of all value added in the economy.

Unemployment occurs when a person who is actively searching for employment is unable to find work. Unemployment is often used as a measure of the health of the economy. The most frequently cited measure of unemployment is the unemployment rate. This is the number of unemployed persons divided by the number of people in the labour force.

Unemployment can be generally broken down into several types that are related to different causes. Classical unemployment occurs when wages are too high for employers to be willing to hire more workers. Consistent with classical unemployment, frictional unemployment occurs when appropriate job vacancies exist for a worker, but the length of time needed to search for and find the job leads to a period of unemployment. Structural unemployment covers a variety of possible causes of unemployment including a mismatch between workers' skills and the skills required for open jobs.

The various schools of economic thought differ on their explanation of the cause of unemployment. Keynesian economics proposes that there is a "natural rate" of unemployment because the skills of labourers and the positions available are slightly out of sync even under the best economic conditions. Neoclassical economics postulates that the labour market is efficient if left alone, but that various interventions, such as a minimum wage laws and unionization, put supply and demand out of balance.

Inflation is the general price increase across the entire economy. When prices decrease, there is deflation. Economists measure these changes in prices with price indexes. Inflation can occur when an economy becomes overheated and grows too quickly. Similarly, a declining economy can lead to deflation.

The causes for inflation are not universally agreed upon, but at least two theories are generally accepted:

Demand-Pull Inflation - This theory can be summarized as "too much money chasing too few goods". In other words, if demand is growing faster than supply, prices will increase. This usually occurs in growing economies.

Cost-Push Inflation- When companies' costs go up, they need to increase prices to maintain their profit margins. Increased costs can include things such as wages, taxes, or increased costs of imports.

Comprehension and Vocabulary Exercises:

A. Please answer the following questions:

1. Is there another term for national output and how can it be measured?
2. How many types of unemployment are there and under which conditions does each one happen?
3. Are there distinct causes for inflation to occur? If yes, name them.
4. What do we refer to with the acronym GDP?
5. Which are some of the causes for unemployment? Are there different views?
6. What is the business cycle?

B. Match the following terms with their definition:

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|----------------|---|
| 1. aggregate | a. a prophecy or prediction |
| 2. index | b. a factor, circumstance, etc., that influences |
| 3. deflation | c. collective; corporate |
| 4. fluctuation | d. an alphabetical list of persons, places, subjects |
| 5. determinant | e. constant change; instability |
| 6. forecast | f. a reduction in the level of total spending and economic activity resulting in lower levels of output |
| 7. policy | g. a plan of action adopted or pursued by an individual, government, party, business, etc |

C. Fill in the gaps with the following missing phrases:

1.annual percentage 2.constant when there 3.level of prices 4.good or service
5. inflation goes up 6.terms of purchasing

Inflation is defined as a sustained increase in the general _____ for goods and services. It is measured as a(n) _____ increase. As inflation rises, every euro you own buys a smaller percentage of a(n) _____. The value of a euro does not stay _____ is inflation. The value of a euro is observed in _____ power, which are the real, tangible goods that money can buy. When _____, there is a decline in the purchasing power of money.

D. Fill in the missing words from the list:

force, market, person, workers, unemployment

Many different variations of the _____ rate exist with different definitions concerning who is an “unemployed _____ “ and who is in the “labour _____.” For example, the U.S. Bureau of Labour Statistics’ commonly cites the “U-3” unemployment rate as the official unemployment rate, but this definition of unemployment does not include unemployed _____ who have become discouraged by a tough labour _____ and are no longer looking for work.

E. Write the opposites of the following words:

1. unemployment _____
2. inflation _____
3. overheat _____
4. decline _____
5. reduce _____



UNIT 2

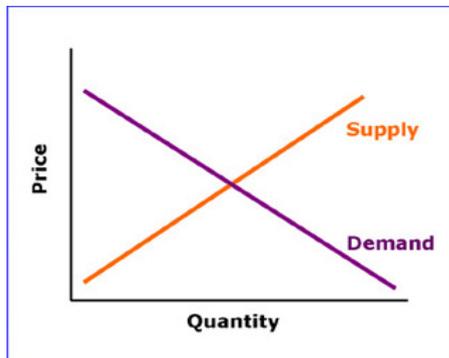
MICROECONOMICS



Start-up

In class discuss these questions:

- A. Microeconomics vs. macroeconomics. Name any differences you know.
 - B. Make a list with some keywords that you may think, in reference to the field of microeconomics:
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Reading

The field of economics is broken down into two distinct areas of study: microeconomics and macroeconomics. Microeconomics is the branch that analyzes the market behavior of individual households and firms in making decisions on the allocation of limited resources amongst many alternative uses. It is concerned with the interaction between individual buyers and sellers and the factors that influence the choices made by them. In particular, microeconomics focuses on patterns of supply and demand for goods and services and the determination of price and output in individual market. This is in contrast to macroeconomics, which focuses primarily on the effects of interest rates, employment, output and exchange rates on governments and economies as a whole.

Until the so-called Keynesian revolution of the late 1930s and 1940s, the two main parts of economic theory were typically labelled “monetary theory” and “price theory.” Today, the corresponding dichotomy is between “macroeconomics” and

“microeconomics.” The motivating force for the change came from the macro side, with modern macroeconomics being far more explicit than old-fashioned monetary theory about fluctuations in income and employment. In contrast, no revolution separates today’s microeconomics from old-fashioned price theory; one evolved from the other naturally and without significant controversy.

Microeconomics is so basic; it can be compared to a tree trunk from which all subfields of economics have branched. At the root of it is supply and demand. Demand refers to how much (quantity) of a product or service is desired by buyers. The quantity demanded is the amount of a product people are willing to buy at a certain price. Supply represents how much the market can offer. The quantity supplied refers to the amount of a product certain good producers are willing to supply when receiving a certain price. The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship. Therefore, price is a reflection of supply and demand.

People specialize in what they think they can do best—or more existentially, in what heredity, environment, fate, and their own volition have brought them to do. They trade their services and/or the products of their specialization for those produced by others. Markets evolve to organize this sort of trading, and money evolves to act as a generalized unit of account. In this market process, people try to get the most from what they have to sell, and to satisfy their desires as much as possible. In microeconomics this is translated into the notion of people maximizing their personal benefit or “utility,” (also known as welfare). This process helps them to decide what they will supply and what they will demand. Any decision in allocating capital involves an opportunity cost of the capital, or a hurdle rate, defined as the expected rate one could get by investing in similar projects on the open market. In case markets fail to produce efficient results, microeconomics analyzes market failure, and describes the theoretical conditions needed for perfect competition. Significant fields of study in microeconomics include general equilibrium, markets under asymmetric information, choice under uncertainty and economic applications of game theory. Also considered is the elasticity of products within the market system.

Microeconomic analysis moves easily and painlessly from one topic to another and lies at the centre of most of the recognized subfields of economics. For example, labour economics, which is built largely on the analysis of the supply and demand for labour of different types. Industrial organization, dealing with the different mechanisms (monopoly, cartels, and other types of competitive behaviour) by which goods and services are sold. International economics, which worries about the demand and supply of individual traded commodities, as well as of a country’s exports and imports taken as a whole, and the consequent demand for and supply of foreign exchange. Agricultural economics, which deals with the demand and supply of agri-

cultural products, farm labour, and other factors of production in agriculture. Urban economics, examining the challenges faced by cities, such as sprawl, air and water pollution, traffic congestion, and poverty, draws on the fields of urban geography and sociology, and many others.



Comprehension and Vocabulary Exercises:

A. Indicate whether the following statements are true (T) or false (F):

1. Price theory has been replaced by microeconomics smoothly, without any arising problem.
2. There is a controversy between macroeconomics and monetary theory.
3. Market failure exists when the economy is unable to allocate resources efficiently.
4. Demand is when people trade to fulfil their needs in things they produce.
5. Utility for a seller is the notion for getting the best from what he/she sells.
6. Industrial organization examines different types of competitive behaviour.

B. Match the two parts to form meaningful statements:

- | | |
|----------------------------|---|
| 1. Monopoly is | a. deals with imports and exports. |
| 2. Labour economics | b. a type of competitive behaviour. |
| 3. International economics | c. a generalized unit for buying and selling. |
| 4. Supply and demand | d. deals with supply and demand of jobs. |
| 5. Money is used as | e. the individual's satisfaction for his/her decisions. |
| 6. Welfare | f. determine prices of goods or services. |
| 7. Utility increases | g. examines problems faced in cities. |
| 8. Urban economics | h. refers to prosperity. |

C. Fill in gaps with the following missing phrases:

1.insurance programs 2.expenditure policies 3.air and water pollution
4.specialized areas of study 5.wages, employment 6.evolution of the economy
7.entry and exit of firms 8.competing legal regimes

Applied microeconomics includes a range of _____, many of which draw on methods from other fields. Industrial organization examines topics such as the _____, innovation, and the role of trademarks. Labour economics examines _____, and labor market dynamics. Financial economics examines topics such as the structure of optimal portfolios, the rate of return to capital, econometric analysis of security returns, and corporate financial behavior. Public economics examines the design of government tax and _____ and economic effects of these policies (e.g., social insurance programs). Political economy examines the role of political institutions in determining policy outcomes. Health economics examines the organization of health care systems, including the role of the health care workforce and health _____. Urban economics, which examines the challenges faced by cities, such as sprawl, _____, traffic congestion, and poverty, draws on the fields of urban geography and sociology. Law and economics applies microeconomic principles to the selection and enforcement of _____ and their relative efficiencies. Economic history examines the _____ and economic institutions, using methods and techniques from the fields of economics, history, geography, sociology, psychology, and political science.

D. Fill in the missing words from the list:

goods, choices, benefit, consumer, decisions

We can analyze the economy by examining how the _____ of individuals and firms alter the types of _____ that are produced. Ultimately, it is the smallest segment of the market - the _____ - who determines the course of the economy by making _____ that best fit the consumer's perception of cost and _____.

E. Match the terms to the definition:

- | | |
|--------------|--|
| 1. urban | a. an article of commerce |
| 2. sprawl | b. a price or charge with reference to a standard or scale |
| 3. commodity | c. relating to, or constituting a city or town |