Macroeconomics

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Macroeconomics is a branch of economics that deals with the performance, structure, behavior, and decision-making of an economy as a whole. This includes regional, national, and global economies. Macroeconomists study topics such as output/GDP (gross domestic product) and national income, unemployment (including unemployment rates), price indices and inflation, consumption, saving, investment, energy, international trade, and international finance.

Macroeconomics and microeconomics are the two most general fields in economics. The focus of macroeconomics is often on a country (or larger entities like the whole world) and how its markets interact to produce large-scale phenomena that economists refer to as aggregate variables. In microeconomics the focus of analysis is often a single market, such as whether changes in supply or demand are to blame for price increases in the oil and automotive sectors.

From introductory classes in "principles of economics" through doctoral studies, the macro/micro divide is institutionalized in the field of economics. Most economists identify as either macro- or micro-economists.

Macroeconomics is traditionally divided into topics along different time frames: the analysis of short-term fluctuations over the business cycle, the determination of structural levels of variables like inflation and unemployment in the medium (i.e. unaffected by short-term deviations) term, and the study of long-term economic growth. It also studies the consequences of policies targeted at mitigating fluctuations like fiscal or monetary policy, using taxation and government expenditure or interest rates, respectively, and of policies that can affect living standards in the long term, e.g. by affecting growth rates.

Macroeconomics as a separate field of research and study is generally recognized to start in 1936, when John Maynard Keynes published his The General Theory of Employment, Interest and Money, but its intellectual predecessors are much older. The Swedish Economist Knut Wicksell who wrote the book Interest and Prices (1898), translated into English in 1936 can be considered to be the pioneer of macroeconomics, while Keynes who introduced national income accounting and various related concepts can be said to be the founding father of macroeconomics as a formal subject. Since World War II, various macroeconomic schools of thought like Keynesians, monetarists, new classical and new Keynesian economists have made contributions to the development of the macroeconomic research mainstream.

Macroeconomic model

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A macroeconomic model is an analytical tool designed to describe the operation of the problems of economy of a country or a region. These models are usually designed to examine the comparative statics and dynamics of aggregate quantities such as the total amount of goods and services produced, total income earned, the level of employment of productive resources, and the level of prices.

Macroeconomic models may be logical, mathematical, and/or computational; the different types of macroeconomic models serve different purposes and have different advantages and disadvantages. Macroeconomic models may be used to clarify and illustrate basic theoretical principles; they may be used to

test, compare, and quantify different macroeconomic theories; they may be used to produce "what if" scenarios (usually to predict the effects of changes in monetary, fiscal, or other macroeconomic policies); and they may be used to generate economic forecasts. Thus, macroeconomic models are widely used in academia in teaching and research, and are also widely used by international organizations, national governments and larger corporations, as well as by economic consultants and think tanks.

New classical macroeconomics

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New classical macroeconomics, sometimes simply called new classical economics, is a school of thought in macroeconomics that builds its analysis entirely on a neoclassical framework. Specifically, it emphasizes the importance of foundations based on microeconomics, especially rational expectations.

New classical macroeconomics strives to provide neoclassical microeconomic foundations for macroeconomic analysis. This is in contrast with its rival new Keynesian school that uses microfoundations, such as price stickiness and imperfect competition, to generate macroeconomic models similar to earlier, Keynesian ones.

Keynesian economics

mainstream macroeconomics. The 2008 financial crisis sparked the 2008–2009 Keynesian resurgence by governments around the world. Macroeconomics is the study

Keynesian economics (KAYN-zee-?n; sometimes Keynesianism, named after British economist John Maynard Keynes) are the various macroeconomic theories and models of how aggregate demand (total spending in the economy) strongly influences economic output and inflation. In the Keynesian view, aggregate demand does not necessarily equal the productive capacity of the economy. It is influenced by a host of factors that sometimes behave erratically and impact production, employment, and inflation.

Keynesian economists generally argue that aggregate demand is volatile and unstable and that, consequently, a market economy often experiences inefficient macroeconomic outcomes, including recessions when demand is too low and inflation when demand is too high. Further, they argue that these economic fluctuations can be mitigated by economic policy responses coordinated between a government and their central bank. In particular, fiscal policy actions taken by the government and monetary policy actions taken by the central bank, can help stabilize economic output, inflation, and unemployment over the business cycle. Keynesian economists generally advocate a regulated market economy – predominantly private sector, but with an active role for government intervention during recessions and depressions.

Keynesian economics developed during and after the Great Depression from the ideas presented by Keynes in his 1936 book, The General Theory of Employment, Interest and Money. Keynes' approach was a stark contrast to the aggregate supply-focused classical economics that preceded his book. Interpreting Keynes's work is a contentious topic, and several schools of economic thought claim his legacy.

Keynesian economics has developed new directions to study wider social and institutional patterns during the past several decades. Post-Keynesian and New Keynesian economists have developed Keynesian thought by adding concepts about income distribution and labor market frictions and institutional reform. Alejandro Antonio advocates for “equality of place” instead of “equality of opportunity” by supporting structural economic changes and universal service access and worker protections. Greenwald and Stiglitz represent New Keynesian economists who show how contemporary market failures regarding credit rationing and wage rigidity can lead to unemployment persistence in modern economies. Scholars including K.H. Lee explain how uncertainty remains important according to Keynes because expectations and conventions together with psychological behaviour known as "animal spirits" affect investment and demand. Tregub's

empirical research of French consumption patterns between 2001 and 2011 serves as contemporary evidence for demand-based economic interventions. The ongoing developments prove that Keynesian economics functions as a dynamic and lasting framework to handle economic crises and create inclusive economic policies.

Keynesian economics, as part of the neoclassical synthesis, served as the standard macroeconomic model in the developed nations during the later part of the Great Depression, World War II, and the post-war economic expansion (1945–1973). It was developed in part to attempt to explain the Great Depression and to help economists understand future crises. It lost some influence following the oil shock and resulting stagflation of the 1970s. Keynesian economics was later redeveloped as New Keynesian economics, becoming part of the contemporary new neoclassical synthesis, that forms current-day mainstream macroeconomics. The 2008 financial crisis sparked the 2008–2009 Keynesian resurgence by governments around the world.

New Keynesian economics

Keynesian macroeconomics by adherents of new classical macroeconomics. Two main assumptions define the New Keynesian approach to macroeconomics. Like the

New Keynesian economics is a school of macroeconomics that strives to provide microeconomic foundations for Keynesian economics. It developed partly as a response to criticisms of Keynesian macroeconomics by adherents of new classical macroeconomics.

Two main assumptions define the New Keynesian approach to macroeconomics. Like the New Classical approach, New Keynesian macroeconomic analysis usually assumes that households and firms have rational expectations. However, the two schools differ in that New Keynesian analysis usually assumes a variety of market failures. In particular, New Keynesians assume that there is imperfect competition in price and wage setting to help explain why prices and wages can become "sticky", which means they do not adjust instantaneously to changes in economic conditions.

Wage and price stickiness, and the other present descriptions of market failures in New Keynesian models, imply that the economy may fail to attain full employment. Therefore, New Keynesians argue that macroeconomic stabilization by the government (using fiscal policy) and the central bank (using monetary policy) can lead to a more efficient macroeconomic outcome than a laissez faire policy would.

New Keynesianism became part of the new neoclassical synthesis that incorporated parts of both it and new classical macroeconomics, and forms the theoretical basis of mainstream macroeconomics today.

AP Macroeconomics

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Advanced Placement (AP) Macroeconomics (also known as AP Macro and AP Macroecon) is an Advanced Placement macroeconomics course for high school students that culminates in an exam offered by the College Board.

Study begins with fundamental economic concepts such as scarcity, opportunity costs, production possibilities, specialization, comparative advantage, demand, supply, and price determination.

Major topics include measurement of economic performance, national income and price determination, fiscal and monetary policy, and international economics and growth. AP Macroeconomics is frequently taught in conjunction with (and, in some cases, in the same year as) AP Microeconomics as part of a comprehensive AP Economics curriculum, although more students take the former.

Macroeconomic indicators

Macroeconomic indicators are aggregated statistics for a geography, population, or political jurisdiction gathered by agencies and bureaus of various

Macroeconomic indicators are aggregated statistics for a geography, population, or political jurisdiction gathered by agencies and bureaus of various government statistical organization, and sometimes by private organizations using similar techniques.

Economics

quantity demanded. In macroeconomics it is reflected in an early and lasting neoclassical synthesis with Keynesian macroeconomics. Neoclassical economics

Economics () is a behavioral science that studies the production, distribution, and consumption of goods and services.

Economics focuses on the behaviour and interactions of economic agents and how economies work. Microeconomics analyses what is viewed as basic elements within economies, including individual agents and markets, their interactions, and the outcomes of interactions. Individual agents may include, for example, households, firms, buyers, and sellers. Macroeconomics analyses economies as systems where production, distribution, consumption, savings, and investment expenditure interact; and the factors of production affecting them, such as: labour, capital, land, and enterprise, inflation, economic growth, and public policies that impact these elements. It also seeks to analyse and describe the global economy.

Other broad distinctions within economics include those between positive economics, describing "what is", and normative economics, advocating "what ought to be"; between economic theory and applied economics; between rational and behavioural economics; and between mainstream economics and heterodox economics.

Economic analysis can be applied throughout society, including business, finance, cybersecurity, health care, engineering and government. It is also applied to such diverse subjects as crime, education, the family, feminism, law, philosophy, politics, religion, social institutions, war, science, and the environment.

Hydraulic macroeconomics

properties of liquids. Macroeconomics is the study of the performance and structure of an entire economy. Hydraulic macroeconomics is, essentially, a study

Hydraulic macroeconomics is an informal characterization of certain types of macroeconomic study assuming aggregate social wealth (demand or supply) as somewhat smooth, constant and homogeneous. The term was first introduced as hydraulic Keynesianism by Alan Coddington in classification of theoretical research methodologies in Keynesian economics.

Hydraulics is the science and engineering of the mechanical properties of liquids. Macroeconomics is the study of the performance and structure of an entire economy. Hydraulic macroeconomics is, essentially, a study of the economy that treats money as a form of liquid that circulates through the economic plumbing.

William Phillips, an economist and creator of the Phillips curve, invented the MONIAC, a hydraulic computer which simulated the British economy. This is the inspiration for the term. Even earlier, in 1891, Irving Fisher built a hydraulic machine for calculating equilibrium prices.

Initially, the phrase, "hydraulic macroeconomics", was associated with Keynesian economic models that did not display household or firm optimization.

levels and from macroeconomic research, but it is still an important pedagogical introductory tool in most undergraduate macroeconomics textbooks. As monetary

The IS–LM model, or Hicks–Hansen model, is a two-dimensional macroeconomic model which is used as a pedagogical tool in macroeconomic teaching. The IS–LM model shows the relationship between interest rates and output in the short run. The intersection of the "investment–saving" (IS) and "liquidity preference–money supply" (LM) curves illustrates a "general equilibrium" where supposed simultaneous equilibria occur in both the goods and the money markets. The IS–LM model shows the importance of various demand shocks (including the effects of monetary policy and fiscal policy) on output and consequently offers an explanation of changes in national income in the short run when prices are fixed or sticky. Hence, the model can be used as a tool to suggest potential levels for appropriate stabilisation policies. It is also used as a building block for the demand side of the economy in more comprehensive models like the AD–AS model.

The model was developed by John Hicks in 1937 and was later extended by Alvin Hansen as a mathematical representation of Keynesian macroeconomic theory. Between the 1940s and mid-1970s, it was the leading framework of macroeconomic analysis. Today, it is generally accepted as being imperfect and is largely absent from teaching at advanced economic levels and from macroeconomic research, but it is still an important pedagogical introductory tool in most undergraduate macroeconomics textbooks.

As monetary policy since the 1980s and 1990s generally does not try to target money supply as assumed in the original IS–LM model, but instead targets interest rate levels directly, some modern versions of the model have changed the interpretation (and in some cases even the name) of the LM curve, presenting it instead simply as a horizontal line showing the central bank's choice of interest rate. This allows for a simpler dynamic adjustment and supposedly reflects the behaviour of actual contemporary central banks more closely.

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