Exercise: What is macro?

- Write down what you think are the key economic terms that describe the state of the Australian economy
  - Define these terms
  - Write down what the values of these indicators currently are
  - Would these be the same indicators if you were doing the exercise for the
    - US economy? Japanese economy? Any other Asian economy?
Key economic terms

- Price levels & inflation
- Gross domestic product
- Savings rate
- Interest rates
- Investment
- Economic growth
- Unemployment

- Business cycle(s)
- Government & international accounts
- Budget deficit
- Balance of payments
- Exchange rates
- Levels & types of taxation
Price Level & Inflation

- Price level: refers to the average level of prices in the economy
- Inflation: refers to an upward movement in the average level of prices
- Inflation rate: percentage change in price level over a given period of time (annual)
- Unanticipated inflation: changes in the price level that are unexpected
  - can result in redistribution of income, changes in output
Exchange rates

Exchange rate: price of one currency in terms of another

- Fixed: exchange rate may be *pegged* to another currency
  - Examples?
  - Floating: exchange rate allowed to fluctuate according to market demand
Gross Domestic Product

- **Gross Domestic Output (GDP):**
  - a measure of aggregate output for the economy;
  - the value of all *final goods and services* provided in the economy in a year

- **Nominal GDP:**
  - value of goods and services using prices prevailing at time of measurement or current prices

- **Real GDP:**
  - value of output using prices of a given or *base year*
    - allows comparisons across years of changes in output; gives a better measure of *economic growth*
Saving & investment

- **Saving:** the difference between income and consumption
- **Savings:** the accumulation of each period’s saving

- **Investment:**
  - “money invested for income or profit” (Penguin English Dictionary)
  - purchase of newly produced capital goods (an economic definition)
  - goods that are produced this year, but not consumed this year
  - goods that can be used in the production of other goods
Economic Growth

- Expansion of productive capacity of the economy.
- Measured by changes in real GDP
- A business cycle is a periodic but irregular fluctuation of real GDP around long-term trend

Caused by:
- growing labour force
- growing stock of capital
- advances in technology (R&D)
- more efficient use of existing resources
Unemployment

- Unemployment: qualified workers who are available for work, but are not in jobs
  ➢ key determinant: people looking for jobs, but not employed

- Unemployment rate: number of people unemployed as a percentage of labour force

- Labour force: total of people employed plus people who are out of work, but seeking jobs
Types of unemployment

- Frictional
- Structural
- Cyclical
Government Accounts

**Government budget:**

- government sector revenue minus government sector expenditures
  - Revenue obtained from taxes, tariffs, etc.
  - Expenditures on public & social programs

➤ Government deficit or surplus: excess of spending over revenue or revenue over spending
  - Is a budget surplus a good thing? Now?

➤ Depends on business cycle, deliberate government policies and international economy
International Accounts

- **External balance:** difference between value of all goods & services that we sell to other countries & value of what we buy from other countries; called the *current account balance*.

- **Balance of Payments:** Current account + Capital account
Key questions relevant to business

- What is the level of national income?
- What is happening to prices (in general)?
- What is the rate of unemployment?
- What is the level of growth in the economy?

- How do firms make decisions about new plant & equipment?
- How does technological change take place?
  ➢ What effect does it have?
- What determines interest rates?
- What determines exchange rates?
Five debates over macroeconomic policy

- That monetary & fiscal policymakers should try to stabilise the economy
- That monetary policy should be made by rule rather than discretion
- That the RBA should aim for zero inflation
- That the government should balance its budget
- That tax laws should encourage saving