

Nature and Scope of Macroeconomics

You are getting here the article on the nature and scope of macroeconomics, its importance, and its limitation. For the simplicity of learners, we give the link of **PDF** of this article at last.



Introduction

In the 1930s, Ragnar Frisch classified economics into two branches; Microeconomics and macroeconomics. These terms are derived from the Greek word, **Micros** and **macros**, which means small and large respectively. Microeconomics studies the economic behavior of individual decision-making units i.e. individual household, worker, firm, or industry, and price determination of individual goods and services. In contrast, **macroeconomics is concerned with the behavior of aggregate, the economy as a whole.** In other words, we can define macroeconomics as concerned with the nature, relationships, and behavior of such economic aggregates as national income, total consumption, saving and investment, total employment, and the general price level. **Let's recall the definition of macroeconomics offered by some economists to understand it more deeply.**

According to Roy George Douglas Allen (R.D.D. Allen)

"The term 'macro-economics' applies to the study of relations between broad economic aggregates"

According to P.A. Samuelson

"Macroeconomics is the study of the behaviour of the economy as a whole. It examines the overall level of a nation's output, employment, prices, and foreign trade."

Key Points

- **Definition of macroeconomics:-** Macroeconomics is concerned with the behavior of aggregate, the economy as a whole.
- Ragnar Frisch classified economics into two branches; Microeconomics and macroeconomics.
- Macroeconomics variables are national income, total consumption, saving and investment, total employment, and the general price level.
- "The term 'macro-economics' applies to the study of relations between broad economic aggregates"- **By R.D.D. Allen**
- "Macroeconomics is the study of the behaviour of the economy as a whole. It examines the overall level of a nation's output, employment, prices, and foreign trade."- **By P.A. Samuelson**

Scope of Macroeconomics

'Scope' means **the area or subject matter that something deals with**. Viewed from this meaning of the term, the scope of macroeconomics means the topic covered in macroeconomics. The major study area or topic by macroeconomics are:

Theory of Income and Employment

Macroeconomics studies various issues, factors determining the income and employment level of an economy. It studies not only an individual income but the whole income of the nation(aggregate of individual income. It also suggests the methods of how to measure national income. Not only that much, but macroeconomics also studies how the level of employment affects the income level of the nation.

Key Points

- Macroeconomics also known as income and employment theory because it studies the process of income and employment determination, factors determining income and employment

Theory of output and Employment

Macroeconomics studies the level of employment where the industry of a nation gets an equilibrium level of output.

Theory of Distribution

Macroeconomics studies the determinants of the income distribution. In other words, macroeconomic theories of distribution are concerned with the share of national income accruing to laborers in the form of wages and to capitalists or entrepreneurs in the form of business profit are determined and distributed.

Theory of Business/Trade cycle

The rise and fall in the activities of an economy are known as the business/trade cycle. In other words, the rise and fall in the level of income, output, employment/unemployment, demand and supply, price level, and other different aggregate economic variables. Macroeconomics studies all the causes of fluctuation in these economic activities.

Theory of Consumption/Saving and Investment

Macroeconomics studies the factors determining the level of consumption and saving and investment. Many theories are developed to explain it. According to Modern Keynesian theory, when income increase consumption also increases but in a small proportion than the increase in income, and the rest part known as saving. These theories assume that saving is only for investment and the factor affecting saving and investment is the interest rate and the marginal efficiency of capital (MEC).

Theory of Inflation (General price level)

Macroeconomics studies different causes and their effect on price level in the economy. Generally, the money supply creates inflation and deflation in the economy.

Theory of Economic Growth and Development

Various issues relating to economic growth and development are studied under macroeconomics. such issues are inequality, poverty, privatization, etc.

Theory of International Trade

Macroeconomics deals with national income, level of employment, price level, aggregate output, etc of the nation and their impact when these variables fluctuate. Similarly, it also studies different components of international trade like the balance of payment, the balance of trade, exchange rate, etc.

Uses of Macroeconomics

- **To understand the working of the economy**

Macroeconomics helps to understand the factors and forces that determine the level of aggregate production, employment, saving, and investment, demand, and supply of money, international

flows of goods and services, etc. It gives a complete overview of how these variables(whole economy) behave and are determined.

- **Formulation of economics policies**

Macroeconomics provides accurate and also reliable data of aggregate variables to the government for the formulation of sound economic policies.

- **Business Decision**

Macroeconomics is very useful in business decision-making. The overall macroeconomics variables like national income, level of employment, demand and supply, rate of inflation, etc affect business firms. So the study of macroeconomics is very useful to solve environmental issues faced by business firms.

- **Economic Planning**

[Economic planning](#) is concerned with determining the level of economic growth and development. A number of aggregate economic variables are used in determining various components of economic planning such as objectives, targets, priorities, policies, annual growth rate, and so on.

- **Development of microeconomics theories**

The theories of microeconomics such as the [law of demand](#), the law of diminishing marginal utility, consumer surplus, the [law of variable proportion](#), etc are based on the collection of experience on mass consumers. For example; the determination of the price of a product will influence by the general price level, the demand for a product is determined by the aggregated demand of an economy.

- **International Comparison**

Only macroeconomics variables like national income, total output, aggregate demand, and investment patterns of different countries can be easily compared. Thus, macroeconomics provides the necessary information for international comparison.

Limitation of Macroeconomics

In spite of its great merits and usefulness, macroeconomics has certain limitations. Some important limitations of macroeconomics are;

Problems in measuring heterogeneous aggregate

Microeconomics deals with many with both homogeneous and heterogeneous goods. Homogeneous goods like oranges and apples (Fruits or agricultural products). And Heterogeneous goods like airplanes and apples. It's easy to measure the unit of output on

homogeneous goods but it's not possible to measure the unit of output on heterogeneous goods. It is meaningless. Money is the only measuring rod. But the value of money itself keeps on changing from time to time. So there may be a lack of accuracy.

Unreliable estimates of aggregates

Macroeconomics studies the economy as the whole, not individual. sometimes aggregate data misleads us. For example; when the agricultural prices decrease by 30%, while industrial prices increase by 30%, the general price level remains the same. In such a situation, one may advise the government to make no change in its policy but actually, the government needs to implement a policy that helps farmers.

Variation in the degree of fluctuation

The change in the macroeconomics variable may not influence all the sectors of the economy in the same manner. Some get adversely affected and others may be benefited from it. For example; a rise in price level benefits the traders and industrialists but the wages earners are the losers. Wages earners get badly affected.

Ignores the contribution of individual units

Macroeconomics studies the economy as a whole (aggregate variables). However, in real life, the economic activities and decisions taken by individual units on a private level have an effect on the economy as a whole. Such effects are ignored by macroeconomics.

Conclusion; These critical views, however, should not lead to the conclusion that macroeconomics is of little use in real-life economic situations. It adds a great deal to the understanding of the working of the economy and also in the formulation of macroeconomics policies.

Frequently Asked Questions

What is Macroeconomics?

macroeconomics is concerned with the behavior of aggregate, the economy as a whole. In other words, we can define macroeconomics as concerned with the nature, relationships, and behavior of such economic aggregates as national income, total consumption, saving and investment, total employment, and the general price level.

List out the scope of macroeconomics?

Scope of macroeconomics are;

1. Theory of Income and Employment
2. Theory of output and employment
3. Theory of Distribution

4. Theory of Business/Trade cycle
5. Theory of Consumption/Saving and Investment
6. Theory of inflation (General price level)
7. Theory of Economic Growth and Development
8. Theory of International Trade

List out the importance of macroeconomics.

Importance of macroeconomics;

1. To understand the working of the economy
2. Formulation of economics policies
3. Business Decision
4. Formulation of economics theories
5. International comparison

List out the limitation of macroeconomics.

Limitation of macroeconomics;

1. Problems in measuring heterogeneous aggregate
2. Unreliable estimates of aggregates
3. Variation in the degree of fluctuation
4. Ignores the contribution of individual units

Why is macroeconomics is known as income and employment theory?

Macroeconomics also known as income and employment theory because it studies the process of income and employment determination, and also factors determining income and employment