

# 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. **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."

## Types of Macroeconomics Analysis

Broadly there are two ways of analysis an economics phenomenon; they are

- Static Analysis
- Dynamic Analysis

### Static Analysis

The term '**static**' means '**the state of rest**' or '**motionless**'. Viewed from this meaning of the term, we can define static analysis as when the subject matter or phenomenon of macroeconomics analysis under static conditions is known as static analysis. The static condition represents, there is no change in macroeconomic variables like no change in the size of the economy, national output, prices, level of employment, etc. But in reality, it's not possible to be an economy in a state of rest. However, economists assume a static economy for the purpose of analyzing the economy at a point in time. It is only a theoretical concept. **Static-Analysis are further classified into two categories: 1) Macro-statics ii) Comparative statics**

### Macro-statics

Macro-statics deals with the final equilibrium of the economy at a particular point in time. The variables used in this kind of analysis have no past or future, all variables belong to the same point of time. This modal of analysis is to find out the relationship between related variables under static conditions. It means macro-Static analysis is concerned with the equilibrium point, not with the process through which it is attained.

Let's take an example of the equilibrium of an economy. **According to Keynesian**, the position of final equilibrium of any product market where;

$$Y = C + I$$

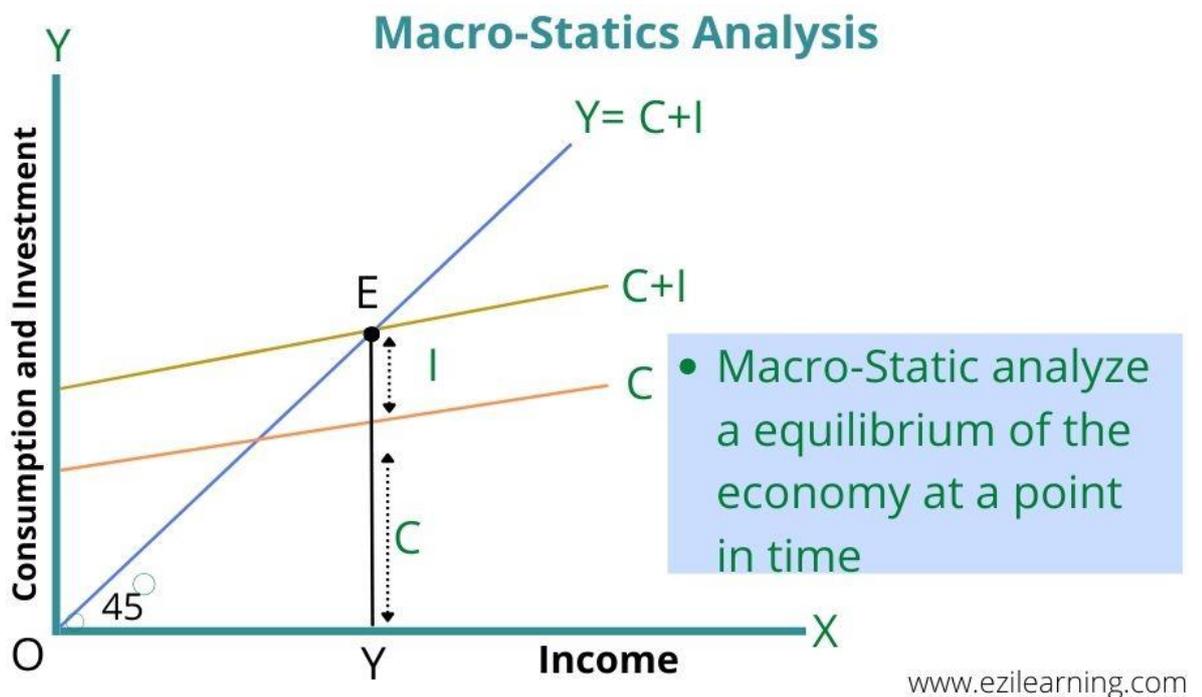
Where,

$Y$  = Total Income

$C$  = Total Consumption

$I$  = Total Investment

Let's discuss the final equilibrium with the figure;



In the above figure, line  $45^\circ$  represents the total income that is consumed and invested by the people in the economy. According to Keynesian, the economy is in equilibrium where  $Y=C+I$  ([aggregate demand = aggregate supply](#)). In above, an economy is an equilibrium at point E where the equilibrium national income is OY. This type of equilibrium is studied under macro-static analysis. *This type of analysis only shows the relationship between related variables under static conditions does not show the process through which it is attained.*

### Comparative Statics Analysis

Comparative statics analysis involves a comparative study of the different equilibrium positions at different points of time on an economy. But it doesn't study how the equilibrium shifts from one point to another in an economy. A comparative study of this kind assumes a great significance where the objective of the study is to predict the future course of the economy on the basis of past experience.

Let's discuss comparative statics analysis take an example of two equilibrium positions of an economy.

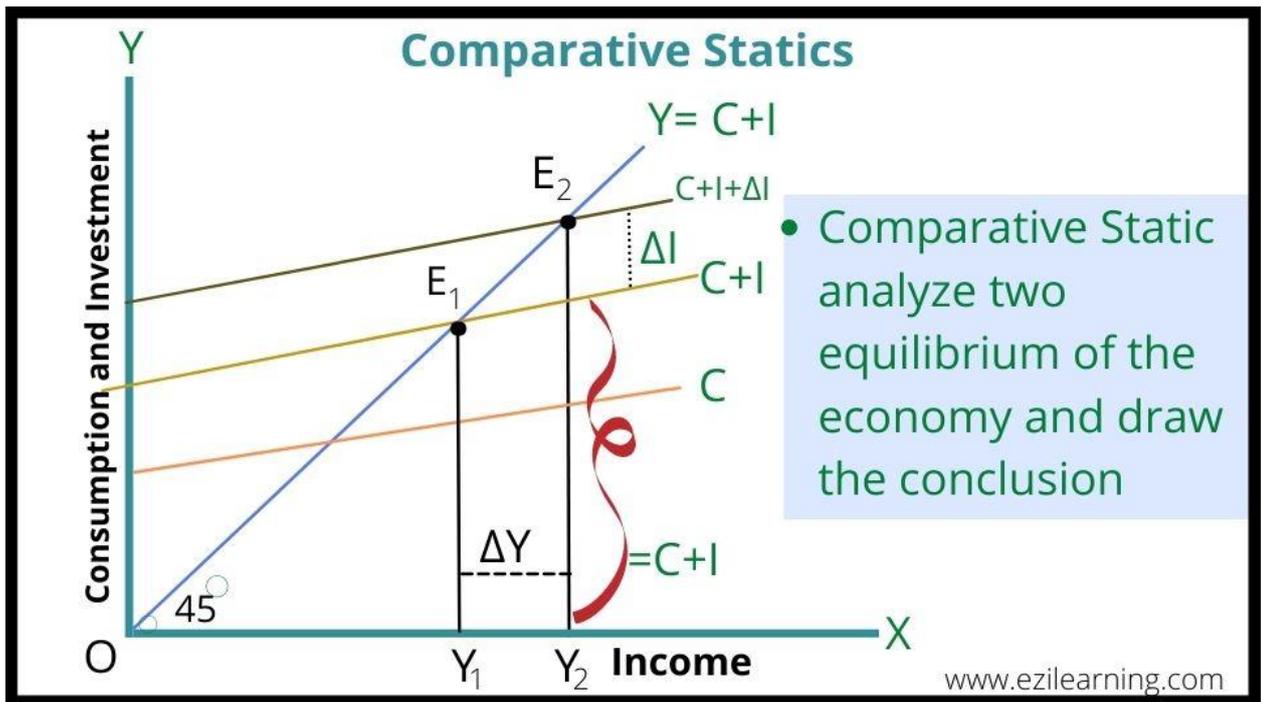


fig. 2

In the above figure Fig. 2, line  $45^\circ$  represents the consumption and investment by the people at a level of income in the economy. According to Keynesian, the economy is in equilibrium where  $Y=C+I$  ([aggregate demand = aggregate supply](#)). In the above, an economy is in equilibrium at points  $E_1$  and  $E_2$  where the equilibrium national income is  $OY_1$  and  $OY_2$ . This type of equilibrium is studied under comparative static analysis. This type of analysis shows the equilibrium is shifted from  $E_1$  to  $E_2$  due to increase in the level of income from  $OY_1$  to  $OY_2$ . *This types of analysis compare one equilibrium position to another due to certain increase in their concerned variables. This analysis also does not shows the process of shifting from one equilibrium to another like the macro-statics analysis.*

### Dynamic Analysis

When a macroeconomic phenomenon is analyzed under changing or dynamic conditions, it is called dynamic analysis. It explains the process through which a new equilibrium is established after a change in independent macroeconomic variables. Dynamic analysis studies the factor and forces that lead to change in the equilibrium of an economy. The interaction between the forces of change is not instantaneous and simultaneous. It involves time lag i.e. the time that a force of change takes to affect the other related factors and the time that other factors take to adjust themselves to the change.

Let's discuss it with an example;

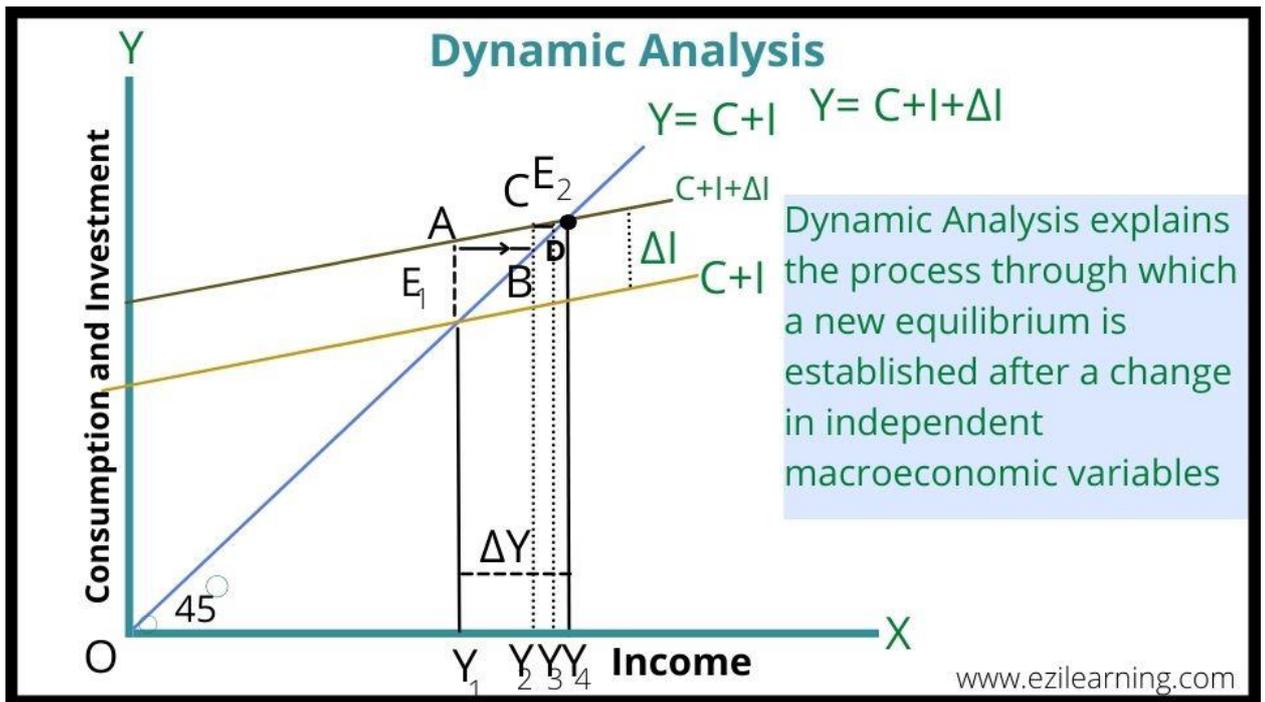


Fig. 3

In the above figure fig. 3,  $E_1$  is the initial equilibrium at income level  $OY_1$ . When there is increase in investment ( $\Delta I$ ), the total aggregate expenditure ( $C+I$ ) also increase. The increase in the expenditure of people (from  $Y_1E_1$  to  $Y_1A$  at  $OY_1$ ) increase the level of aggregate income level to  $OY_2$ . At this increase new level of income people will spend more on consumption goods ( $C$ ) and therefore the next period's total expenditure ( $C+I$ ) increases to  $Y_2C$ . Further, the process of increasing in expenditure raises level of income continues until the new equilibrium  $E_2$  where the level of national income is  $OY_4$ .

This types of analysis is studied under dynamic analysis. From above we can see that how the equilibrium is shift from one point to another in an economy and the factor and forces that leads. We study here the entire process.