



# Introduction to Macroeconomics

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# What is macroeconomics?



# Macroeconomics

- Definition:
  - A field of economics which deals with the **economy as a whole** and the determination of **national output, income and expenditure** and the implications for **employment and prices**.

# Macroeconomics

- History:
  - Start at USA
    - 1920s, masa kemakmuran US
    - 1929, keadaan mulai berubah, banyak pengangguran
    - 1936, publikasi *The General Theory of Employment, Interest and Money*, dari John Maynard Keynes
    - 1950s (setelah perang dunia II), Teori Keynes mempengaruhi ekonom dan pemerintah
    - 1960s, Makroekonomi mulai populer
    - 1979-1981, Makroekonomi kembali dipertanyakan, karena adanya stagnansi dan inflasi yang tetap terjadi

# Macroeconomics

## Components:

- Households
- Firms
- Government
- Rest of the world

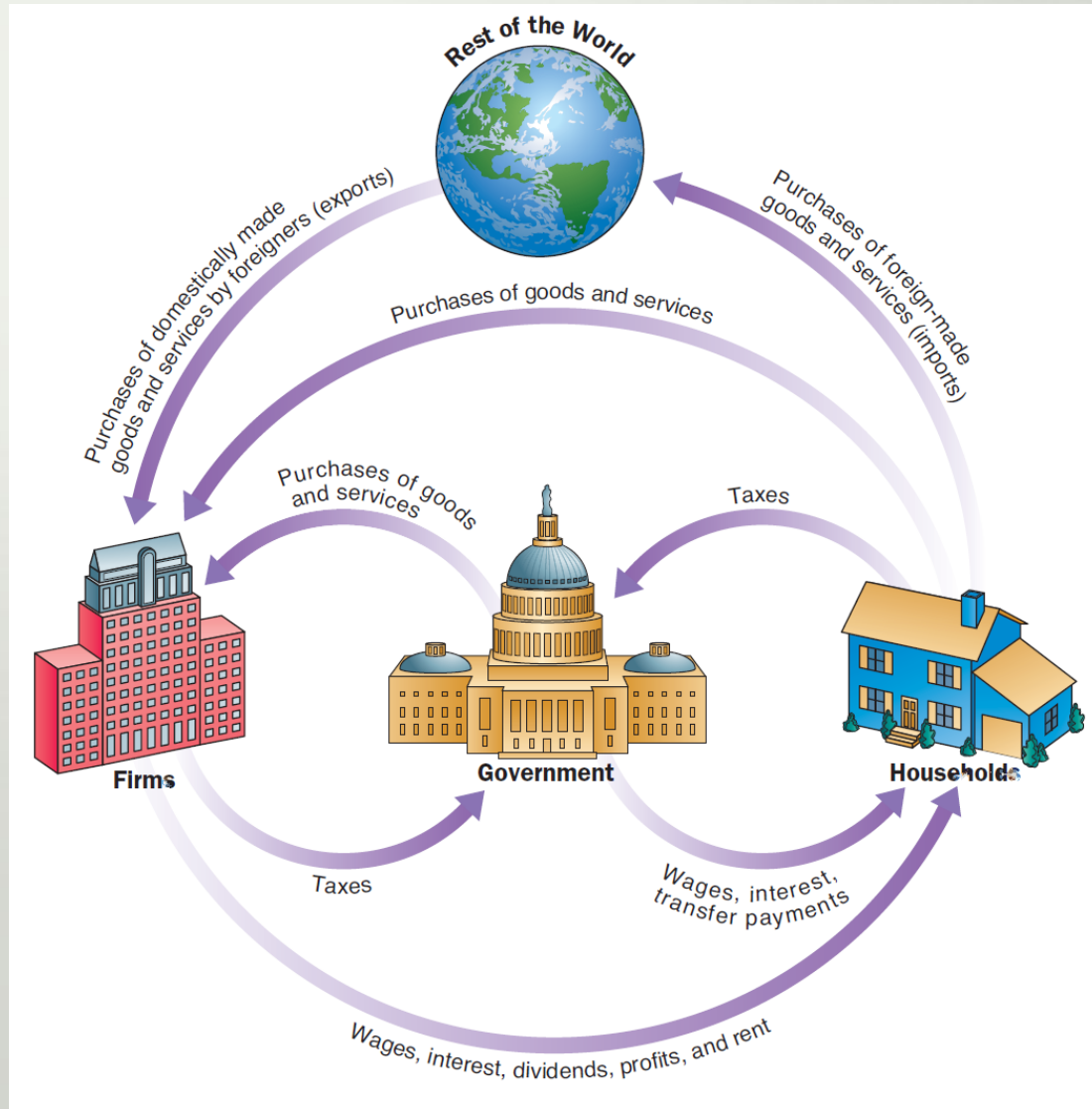
interaction

Circular flow diagram

## Market:

- Goods-services market
- Labor market
- Money market

# Circular Flow Diagram



# Macroeconomics

- Goals
  - Output
    - High level and **sustainable** growth
  - Employment
    - High level of employment and low involuntary unemployment
  - Stable Prices
  - International trade
    - Export and import equilibrium and exchange rate stability

# Output

- The ultimate objective of economic activity is to provide the goods and services that the population desires.
- The most comprehensive measure of the total output in an economy is the **gross national product (GNP)**.

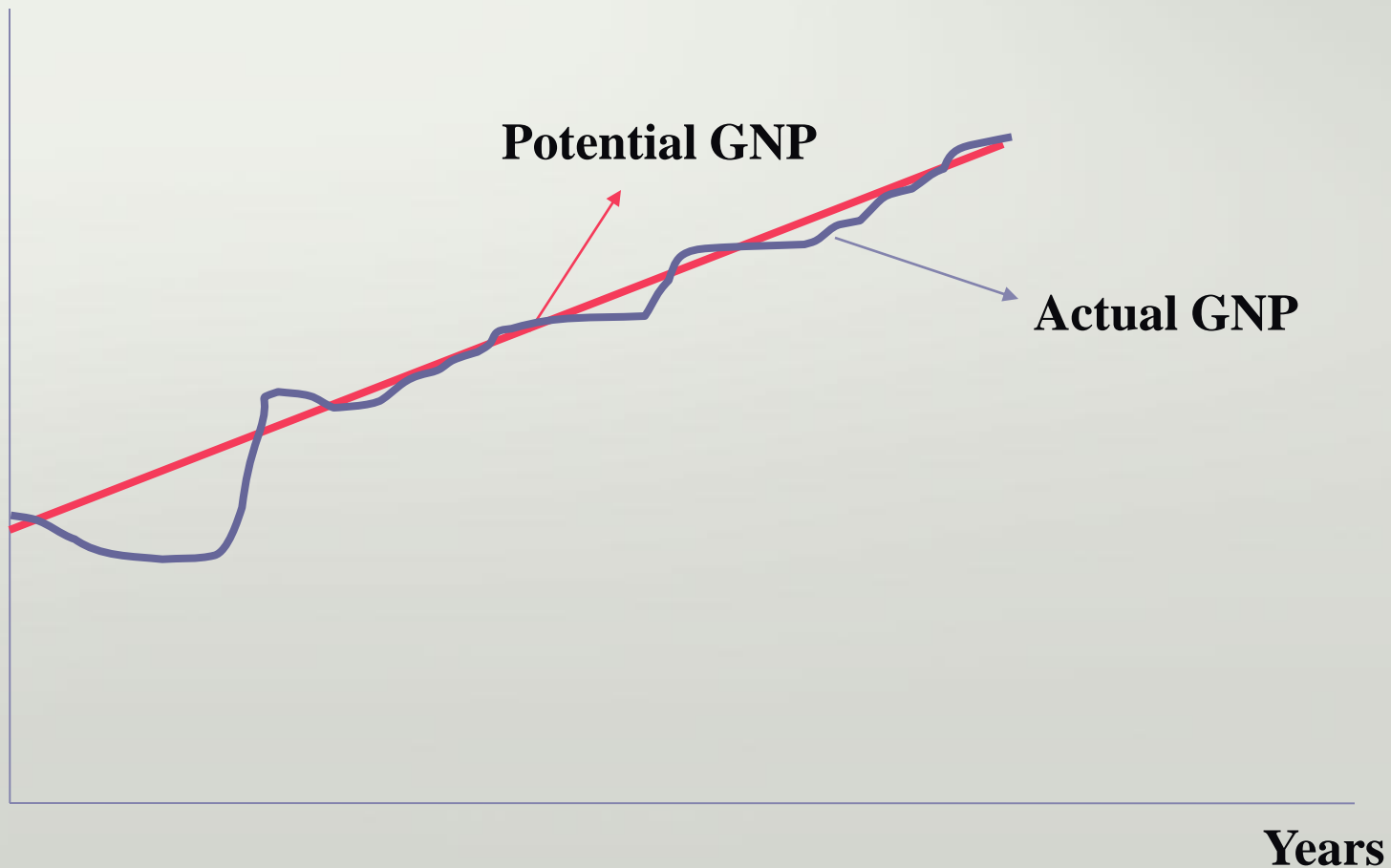


# GNP

- **Nominal GNP** is measured in actual market prices.
- **Real GNP** is calculated in constant or invariant prices.
- **Potential GNP** is the long-run trend in real GNP. It represents the long-run productive capacity of the economy or the maximum amount the economy can produce while maintaining stable prices.

# Potential and Actual GNP

Real GNP  
(\$)



# Employment

- The **unemployment rate** measures the fraction of the labour force that is looking for but cannot find the work.
- The **labour force** includes all employed persons and those unemployed individuals who are seeking jobs.
- The **unemployment rate** tends to move with the business cycle.

# Stable Prices

- The third macroeconomic goal is to maintain **stable prices within free markets**.
- A market economy uses prices as a yardstick to measure economic values.
- Rapid price changes lead to economic inefficiency.

- The most common measure of the overall price level is the consumer price index (CPI). The CPI measures the cost of a fixed basket of goods bought by the typical urban consumer.
- The rate of inflation measures changes in the level of prices. It denotes the rate of growth or decline of the price level from one year to the next.

# Inflation or Deflation

- An inflation occurs when the level of price is growing (the rate of inflation is positive).
- A deflation denotes that the level of price declines (the rate of inflation is negative).
- A disinflation is a decrease in the rate of inflation. The slowing of the rate of inflation per unit of time.

# International trade

- International trade is becoming increasingly important to most country's economy.
- International trade is beneficial to society even if some individuals are harmed by it.
- International trade includes import and export of goods, services, capital, borrowing and lending money etc.

- Net export is the numerical difference between the value of a country's exports and the value of its imports.
- When net exports are positive, a trade surplus exists.
- A trade deficit occurs when the value of imports is greater than the value of exports.



# Exchange Rate Stability

- Foreign exchange rate represents the price of own currency in terms of the currency of other nation.
- When a nation's exchange rate rises, the prices of imported goods fall while exports become more expensive for foreigners  $\Rightarrow$  the nation becomes less competitive in world markets and net exports decline.
- Changes in exchange rates can also affect output, employment, and inflation.

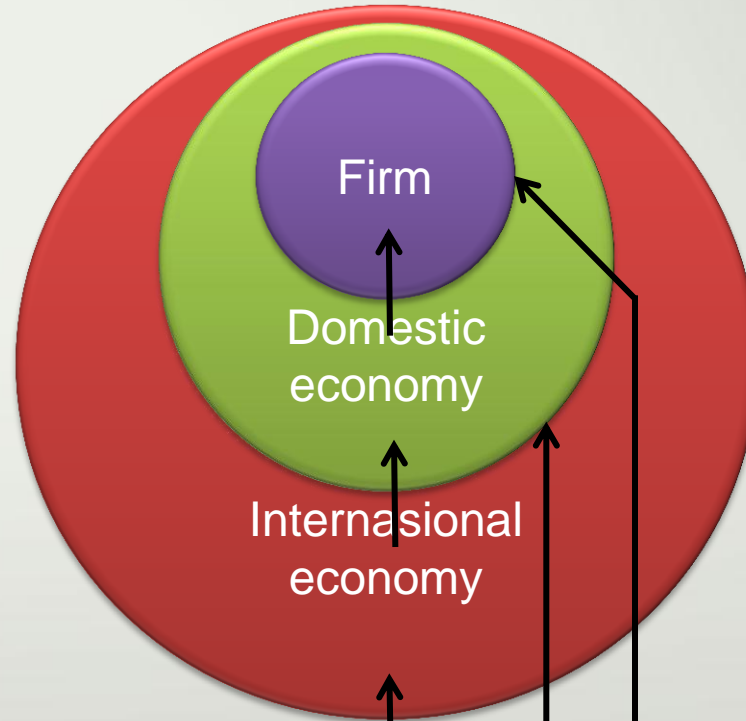
# Macroeconomics

- Instruments:

- Policies:

- Fiscal policy, pengeluaran dan pendapatan (berupa pajak) pemerintah
    - Monetary policy, mengatur persediaan uang sebuah negara
    - Exchange rate policy, stabilitas nilai tukar uang terhadap mata uang asing
    - International trade policy, mengatur perdagangan internasional
    - Supply-side policy, mengatur pertumbuhan dan *sustainability* produksi nasional
    - Prices-income policy, mengatur harga barang dan jasa, terkait dengan tingkat upah
    - Employment policy, penciptaan lapangan pekerjaan dan pengurangan pengangguran

# Macroeconomics



Fiscal policy  
Monetary policy  
Exchange rate policy  
International trade policy  
Supply-side policy  
Prices-income policy  
Employment policy

# Macroeconomics

- Problems
  - Macroeconomic policy requires choice among competing macroeconomic objectives.
  - Macroeconomic dilemmas:
    - Trade off between unemployment and inflation.
    - Greater investment in knowledge and capital lowers current consumption.

# Macroeconomics

- Variables
  - Internal variables: policy instruments
    - Fiscal policy
    - Monetary policy
    - Foreign economic policy
    - Incomes policy
  - External variables (these are unaffected by the economy)
    - Weather
    - Population growth
    - Wars, revolution

# Government & The economy

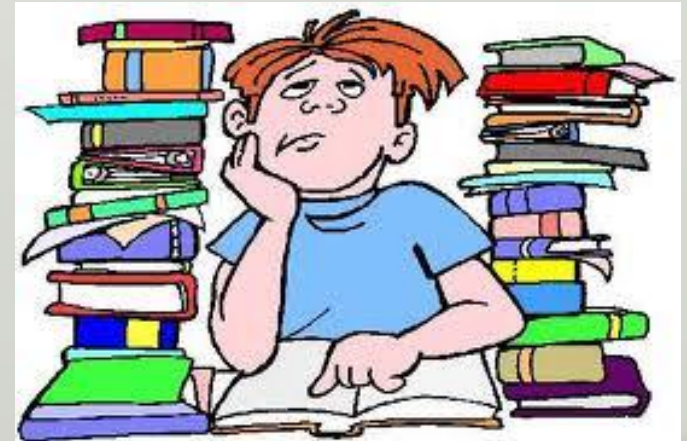
- Reason for government intervention:
  - Provision of essential services
  - Transfer payments
  - Natural monopolies
  - Social costs & benefits
  - Support for industry & commerce
  - Management of total demand in the economy

# Government & The economy

- Government economic objectives:
  - A high and sustained level of economic growth
  - Full employment of economic resources, including labor
  - Low and stable inflation
  - A sound balance of payments coupled with a stable currency value in the foreign exchange markets

# TUGAS

- Buatlah analisa Keadaan Makro Ekonomi Indonesia (periode 2008 – 2012), dari segi Pertumbuhan Ekonomi (GDP), Inflasi, Tenaga Kerja (Tingkat Pengangguran), Perdagangan Internasional, dan Nilai Tukar Uang.





# References

- Case, K., Fair, R., & Oster, S. M. (2010). *Principles of Economics*, 10th Editions. Prentice Hall Business Publishing.
- Nellis, G. J., & Parker, D. (2004). *Principles of Macroeconomics*. Pearson Education Ltd.