

Introduction to Macroeconomics

Introduction to Macroeconomics – Study Guide

1. What Is Macroeconomics?

Aspect	Description
Scope	Examines the performance, structure, and behavior of an economy as a whole (national or global). • How large is output?
Key Questions	• How much does the price level change? • How many people are employed? • What determines the level of savings and investment?
Contrast with Microeconomics	<i>Micro</i> : decisions of individual households/firms; <i>Macro</i> : aggregate outcomes (GDP, inflation, unemployment, fiscal/monetary policy).

2. Core Macro?Variables

Variable	Symbol	What It Measures	Typical Data Source
Gross Domestic Product	Y or GDP	Total market value of all final goods & services produced within a country in a given period.	National accounts (e.g., BEA, Eurostat)
Price Level	P	Average price of a basket of goods & services; often measured by CPI or PPI.	Consumer Price Index (CPI), Producer Price Index (PPI)
Unemployment Rate	U	Share of the labor force that is jobless but actively seeking work.	Labor force surveys
Interest Rate	i	Cost of borrowing; the policy rate set by the central bank influences other rates.	Central bank publications
Exchange Rate	e	Value of the domestic currency relative to foreign currencies.	Foreign exchange markets
Government Deficit/Surplus	G – T	Difference between government spending (G) and tax revenue (T).	Treasury/Finance ministry reports

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3. Major Macroeconomic Models

Model	Purpose	Key Equation(s)
Aggregate Demand–Aggregate Supply (AD–AS)	Shows short-run equilibrium of output & price level.	$AD: (Y = C(Y,T) + I(i) + G + NX(e))$ $AS: (Y = \bar{Y}(P))$ (short-run)
IS–LM	Captures interaction of goods market (IS) and money market (LM).	$IS: (Y = C(Y,T) + I(r) + G)$ $LM: (M/P = L(Y, r))$
Solow Growth Model	Explains long-run economic growth via capital accumulation, labor, and technology.	$(\Delta k = s f(k) - (n + \delta)k)$
Phillips Curve	Relationship between inflation and unemployment.	Short-run: $(\pi_t = \pi_{t-1} - \beta (U_t - U^*) + v_t)$ $IS: (Y = C + I + G + NX(e))$ $LM: (M/P = L(i, Y))$ $BP: (B = 0)$ (balance of payments)
Mundell–Fleming (Open Economy)	Extends IS–LM to include exchange rates & capital mobility.	

4. Fundamental Concepts

4.1 Gross Domestic Product (GDP)

Concept	Formula	Remarks
Nominal GDP	$\sum_i P_i Q_i$	Measured in current prices.

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