MACRO

Economics

→ Focus of macroeconomics

microeconomics ⇒ behaviour + decisions of individual consumers + organizations

Macro economics ⇒ economy as a whole. determining + exploring the relationship between aggregate concepts (variables) like income/production + expenditure/economic growth/inflation unemployment/exchange rates/ ~~bate~~ balance of pmts interest rates

⇒ focus on the interaction between the different markets

⇒ focus on economic policy mainly ~~fico~~ fiscal and monitary policy + the impact that different economic policy measures may have on the economy + the economy variables.

⇒ IS-LM model is an important building block for the AS-AD ~~model~~ model.

⇒ closed economy is an important building block when studying an open economy.

Main focus ⇒ different theories on determination of a output (Y) and the impact of fiscal + monetary policy on the level of output

⇒ current level of output, given the structure of the economy

Overview of SA macro economic environment

Economic growth.

→ takes place when total production of goods + services in an economy increases
→ annual rate of increase in total production or income in the economy
  2 aspects
  * Production or income should be measured in real terms that is the effects of inflation should be eliminated.
  * figures should be adjusted for population growth ∴ be expressed in per capita terms

→ Growth in total production can be measured by calculating the % change in the real gross domestic product (GDP) from one year to the next.

$$\text{Real GDP Growth} = \frac{GDP_t - GDP_{t-1}}{GDP_{t-1}} \times \frac{100}{1}$$

Gross domestic Product GDP

→ total value of all final goods + services produced within the boundaries of a country in a particular period (normally a year)
→ GDP is an official measure of how much output was produced in a country / region for a specific period

=> broadest, best ~~known~~ known + most frequently used measure ~~in~~ of economic activity

=> GDP => gross measurement => includes the total amount of goods and services produced, some of which are simply replacing goods that have depreciated or is worn out.

=> GDP -> measures the goods + services produced inside the borders of a company.

=> Total value is measured by expressing the value of production in terms of the prices of the various goods + services.
GDP -> valued at market prices -> also possible to value it using basic prices or factor cost | income

=> Only final goods + services are included. (final goods used by households + companies)
Intermediate goods are purchased to be used as inputs to produce final goods. ex. crude oil

=> GDP measures the production of new goods + services (current production) during a specific period + is an annual flow. (measures the value + services $ produced over a year)

-> Includes all goods produced inside borders by citizens + foreigners

Nominal vs. GDP

→ Nominal GDP or GDP @ current prices is the sum of the quantities of final Goods + services produced multiplied by their current price.

→ increase in nominal GDP might increase over time due to:

* increase in quantity of goods + services produced
* increase in the prices of goods + services

→ Real GDP or GDP at constant prices.

→ measure of GDP which is the quantities produced @ value of prices in a base year rather than current prices

→ measures the actual physical volume of production

→ base year is used to overcome the problem of price exchanges by expressing the prices of goods + services in terms of prices in a particular year.

Real per capita GDP

→ Possitive economic growth occurs when total real production or income is growing at a faster rate than the population.

→ If population growth rate exceeds the economic growth rate a decline in GDP occurs

→ Real GDP per capita is widely used as a measure of the

economic welfare or wellbeing of residents of a country
-> if real GDP per capital rises it is assumed that people are better off
↳ Problems using real GDP per capita to ~~pre~~ use as a measure of economic welfare
* measurements problems associated with the GDP.
* problem with the composition of output + the distribution of income
* factor such as an increase in defence expenditure was responsible for the increase in GDP -> does not follow that there was a ~~non~~ concomitant increase in economic welfare.
* unequal distribution of income implies that benefits of an increase in GDP flow largely to a relatively small group + people + does not trickle down to the "poor".

Economic growth in SA.
period since 1994 has been ~~ca~~ characterised by 2 factors
-> political democratisation of SA
-> economic globalisation.
-> positive since 1993

-> Inflation
-> continuous + considerable rise in prices in general
-> CPI (Consumer Price index) is used as an indicator of changes in the general price level.
-> reflects the cost of a representative basket of consumer goods + services.

→ CPI is worked out by compareing the index of a particular month with the index of the corresponding month in the previous year + then expressed as a %

$$= \frac{CPI\ (Jan\ 02) - CPI\ (Jan\ 01)}{CPI\ (Jan\ 2001)} \times 100$$

→ Unemployment

→ unemployed persons are those who is 15 years or older.

* are not in ~~pd~~ paid employment or self employment
* available for pd employment 7 days preceding interview
* took specific steps during 4 weeks preceding the interview for employment.

→ expanded definition of employment omits the requirement that a person actively seeks employment.

→ unemployment rate is the number of unemployment people as a persentage of the economy active population

$$\frac{\text{number of unemployed people}}{\text{Economically active population}} \times \frac{100}{1}$$

→ number of unemployed people will differe depending on whether the strict or expanded method is used.

Balance of payments

-> systematic statistical record of economic transactions between residents in the reporting country + the rest of the world.

* consists of
  - -> current account
  - -> capital transfer account
  - -> financial account
  - -> unrecorded transactions
  - -> official reserve account

2 major accounts
* current account
* financial account

-> current account records the country's involvement in international trade (exports + imports)

-> financial account records its involvement in international capital flows

-> Surplus on financial account indicates more ~~fu~~ funds flowed into the country than out.
deficit means more funds flow out.

-> Surplus on current account indicates the value of the country's exports exceeded the value of its imports during the period under review.
deficit imports greater that exports

→ balancing item in the balance of payments (in principle) is the change in the country's gold + other foreign reserves.
* sum of the current account balance, the capital account, financial account balance + the unrecorded transaction are therefor reflected in the change in foreign reserves.

→ Balance of pmts stability exists when there is some balance between exports + imports.
→ Balance of pmts stability is one ~~of~~ of the macroeconomic objectives.
→ ∴ Balance of pmts + exchange rates should be fairly stable.

→ current account + financial account ≠ does not equal to the ~~net~~ change in net reserves → difference is unrecorded transactions.

→ When a country has to repay foreign debts + cannot borrow funds on international financial markets, it has to maintain a surplus of exports to offset the outflow of capital

Distribution of income
→ highly skewed distribution of income
→ difficult to measure.
→ Gini coefficient