Major Macro-Economic Issues

#### 1. Employment and Unemployment:

Un­employment refers to involuntary idleness of resour­ces including manpower. If this problem exists, society’s actual output (or GNP) will be less than its potential output. So one of the objectives of Govern­ment policy is to ensure full employment which implies absence of involuntary unemployment of any type.

 2. Inflation:

It refers to a situation of constant­ly rising prices of commodities and factors of produc­tion. The opposite situation is known as deflation. During inflation some people gain and most people lose. So there is a change in the pattern of income distribution. Therefore, one of the objectives of government policy is to ensure price level stability which implies the absence of inflation and deflation.

#### 3. The Trade Cycle:

It refers to periodic fluc­tuations in the levels of economic or business ac­tivities, i.e., the tendency for output (GNP) and employment to fluctuate over time in a recurring sequence of ups and downs. The periods of good trade alternate with periods of bad trade, or, boom periods of high output and high employment alternate with slump periods of low output and low employment.

In boom periods, employment is low but the rate of inflation is high. In periods of depression (or reces­sion) unemployment is high and the rate of inflation is moderate. In macroeconomics we study the causes of business cycles and suggest remedial measures.

#### 4. Stagflation:

Most modern mixed econo­mics suffer from the disease of stagflation which im­plies the co-existence of inflation and unemployment in a stagnant economy. The trade-off between infla­tion and unemployment is perhaps the most complex macroeconomic issue of the day. Every country in the world is now struggling hard to fight the disease of stagflation.

#### 5. Economic Growth:

In spite of short-term fluctuations of output that are associated with the trade cycle, the long-term trend of total output has been upward in most industrially advanced country. The trend in the nation’s total output over the long period is known as economic growth. It refers to an expansion of society’s production capacity such as bringing new land under cultivation or setting up new factories. Growth is measured by the annual rate of increase of per capita income and is illustrated by a rightward shift of the production possibility curve.

#### 6. The Exchange Rate and the Balance of Pay­ments:

The balance of payments is a systematic record of all economic transactions between the mem­bers of the home country and the rest of the world in an accounting year. These transactions are largely, if not entirely, influenced by the exchange rate. It is the rate at which a country’s economy is exchanged for another currency (or gold).