Main differences between microeconomics and macroeconomics

Economics, Microeconomics

The paper " Main Differences between Microeconomics and Macroeconomics" is a great example of a research paper on macro and microeconomics. Microeconomics and macroeconomics are the two major branches of economics. According to Samuelson and Nordhaus, microeconomics “ is concerned with the behavior of individual entities such as markets, firms, and households (2004, 5).” The major difference of microeconomics versus macroeconomics is in the focus on the economic entity. While microeconomics deal with the individual entities and behaviors, macroeconomics deal with the behavior of the economy as a whole. Hence, as Samuelson and Nordhaus have coined it, macroeconomics is “ concerned with the overall performance of the economy (2004, 5).” The difference in focus can be better seen by means of an example. One interesting phenomenon to look at where the concepts of microeconomics and macroeconomics are apparent and relevant is the global financial crisis. As the major financial markets across the world have tumbled in the past year, the behavior can be analyzed by microeconomics. An efficient market, according to Samuelson and Nordhaus in their book “ Economics” is defined as “ one where all new information is quickly understood by market participants and becomes immediately incorporated into the market prices (2004, 534).” This characteristic of the stock market as an efficient market is attributed to the availability of timely information which is incorporated in the prices of the stocks. Prior to the financial crisis, the financial markets such as stocks, bonds, and mutual funds markets are considered markets where the invisible hand operates. The stock market has always been referred to as an efficient market by economists. According to Brealey,

Myers, and Marcus, “ the competition [in this market] to find misvalued stocks is intense. So when new information comes out, investors rush to take advantage of it and thereby eliminate any profit opportunities (2004, 165).” The financial crisis had started out due to the exposure of the imperfect information in the market. For a long time, the market had operated efficiently as investors trusted the information that was available for the public. When the inefficiency of the US financial system had been exposed to the public, the imperfect information led to inefficiencies in the country's financial system. Because the US financial system had been globally linked to those of other countries, this led to the collapse of many financial markets as capital flight from risk has set in, in order for many investors to minimize the potential loss they might incur from the inefficiencies of the other countries’ financial systems. One example where the concept of macroeconomics was seen at play as regards the global financial crisis, was in the intervention of the Australian government in order to alleviate the effect of this crisis to the Australian economy through a fiscal stimulus package. In order to insulate Australia from the effects of the global financial crisis, the government had utilized some measures such as providing the guarantee for deposits in all Australian financial institutions, as well as financial stimulus package in order to prevent a recession from happening from the country in the past year. According to Mike Head in his article in WSWS. org, “ The prime minister unveiled a finance industry package that guarantees all bank and finance house deposits and overseas borrowings to the tune of more than $2 trillion. Two days later, he announced a $10 billion economic stimulus plan, allocating half the budget surplus, in a desperate

bid to resuscitate consumer spending and prevent the economy sliding toward recession (18 October 2008).” As previously mentioned, $10 billion dollars was provided by the government as a stimulus for the economy. This had come in the form of increased infrastructure spending, as well as grants for consumers in order to prevent consumption from declining. The stimulus package that the government had provided for additional spending was aimed to either push the aggregate demand outward or to at least maintain the current level of aggregate demand and prevent the economy from entering into a recession. With the stimulus package, the government aimed to push the aggregate demand by the amount of the multiplier in the economy. With the stimulus package, the government aimed to channel the funds back to businesses and consumers in order to strengthen the consumption and investment functions. These measures served to both increase investment and prevent it from declining was apparent from the government’s support for small businesses. All these fiscal measures aimed to regulate aggregate demand and prevent the economy from getting into recession, by influencing the other elements of aggregate demand, such as consumption and investment through government spending. As aggregate demand was increased or at least maintained in order to prevent the economy from sliding to recession, unemployment, and inflation figures are kept under control earlier this year, despite the global financial crisis. In this scenario, the behavior of the Australian economy as measured by the level of inflation and unemployment, as well as the policies the government had taken, all embodied the concept of macroeconomics.