

# Example of managing conflict: macroeconomic policies and measures of national inc...

[Economics](#), [Macroeconomics](#)



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## Introduction

The term “ Macroeconomics” refers to the study of the aggregate performance of a particular economy . It is the branch of economics that deals with national income, consumption and investments. Macroeconomics differs from “ microeconomics” in that the latter deals with the functions at an individual economic level . Microeconomics looks into how individuals react to variables that follow a behavioural path whereas Macroeconomics looks into aggregate national income and encompassing behaviours. Macroeconomics is what is known to be the type of economics that is reported in the news. Macroeconomic issues are often reported daily, including topics regarding national incomes, changing aggregate consumption patterns and buying capabilities, savings and investments as well as significant players that may have an effect on these macroeconomic issues. These players include the government, banks, investment organizations, large corporations as well as interactions with parties or groups from outside the country being examined.

Economic growth is a topic that is well analysed in the field of macroeconomics. Economic growth is defined as an increase in the economy's output over a certain, defined period of time . In common economic parlance, this period is two consecutive quarters (6 months). A stricter definition of economic growth is a case wherein the economy's productive potential increases, that is, the level of productivity has increased despite the use of similar resources. The economy produces two particular types of products that are identified as consumer and capital goods. An economy that experiences growth has increased the production of these two goods. Ideally, countries should look at chasing continuous periods wherein the capacity to produce increases, however that is normally far from reality. Thus macroeconomics is riddled with issues. In the 1930s, the United States went through a period known as the " Great Depression" . In this period, the economy of the United States was at the worst possible level as a result of many contributory factors domestically and internationally. The Great Depression started with the Stock Market Crash of 1929, followed by bankruptcy of the US banking system, a contraction of demand, an ill-advised trade scheme with Europe that decreased trade further and a drought in Mississippi that crippled what was left of the agricultural economy . The Great Depression was a dramatic period and was so stark in contrast with the previous decade's prosperity that many questioned how it came to be. It was renowned British economist John Maynard Keynes, who sought an explanation in the middle of the chaotic period. According to Keynes, the depression was caused by inadequate demand. With very little demand, the result would be unemployment and general instability. This framework is the

basis for modern day macroeconomic thought. Before Keynes, the macroeconomic principles were not as logical or applicable for government policy to take after, thereby offering very little guidance to government for managing the economy . However despite the progress we have made in understanding macroeconomics, this branch of economic thought is still riddled with controversy. There are many macroeconomic policies that affect economic growth and many different views on how to best manage an economy, thus a conflict arises naturally from the variations in approach and results.

## **Macroeconomic Policies**

The free countries in the world manage their economies using combinations of economic policies. The general economic policy framework is made up of the following:

- Monetary Policy - Monetary Policy is defined as the measure that the government performs or implements to influence the supply of money and credit in the economy through the manipulation of interest rates. Monetary policies are enacted to influence employment, which is a requirement for continuous growth. Interest rates also help stabilize the price of goods and services and the wages received by workers . In many countries around the world, the principal agency that controls monetary policies is the “ central banks”.
- Fiscal Policy - The Fiscal Policy is managed by the government and not the central banks. Fiscal Policy is defined as the measures taken by the government that influences the economy through the manipulation of

government spending and taxation . The impacts of fiscal policies are profound and are felt in the short-term and the long-term. For example, tax shelters for certain demographic groups enable them to increase their purchasing power but affect other sectors in the economy negatively. Thus fiscal policy is a huge issue that reflects on the thrust of the government, its leaders and the economic situation at that particular time.

- Exchange Rates - the central banks are in charge of managing the foreign exchange markets to influence the relative strength or weakness of a country's currency. The intervention however, is not to manipulate the markets since market forces are still very much in control of the currency exchange rates.

## **Policy Issues**

The issues in macroeconomics stem from a few critical truths. The first is that achieving all the economic objectives of a country at the same time is very difficult and rare to do. Various sectors of an economy demand the same attention from government thereby causing conflict in terms of objectives. Government agencies balance these requirements by identifying priority issues for consideration and the government's response, through these policies, will vary according to the country's resources and stage of development. Here are some key examples of macroeconomic issues and policy conflicts:

- Inflation and unemployment – Inflation is defined as the increase in price levels over a sustained period. This sustained increase in price decreases the purchasing power of consumers . Unemployment on the other hand, is

defined as a pronounced scarcity of economic activities that would provide workers with wages (or salaries). The occurrence of inflation and employment in the economy causes policy conflict. For example, as more people get employed (i. e. unemployment is decreasing), it causes an expansion of demand. This expansion in turn causes prices of goods and services to increase thus pushing inflation upward. At a certain point, the gains from increased employment are negated by inflation rate increase. Policy makers must address this demand-pull-inflation-push issue to gain economic benefits from increasing employment.

- Economic growth and environmental sustainability – there is always a trade-off between progress and environmental sustainability. The issues on whether a country could take in more industrial development versus the potential risks of harming the environment are present and are best managed through policies that seek to find an equitable result for both aspects. This is still under study in many countries because the environmental effects are often long-term in nature and cannot be easily seen. The danger of not being able to address environmental concerns however, is minimized through the use of various measures taken by both public and private sectors.

- Economic growth and inflation – sometimes a country can become a victim of its own success. In some cases, growing the economy too fast causes the economy to weaken. When growth is experienced, the economy's ability to purchase goods and services increases. When this growth is at an accelerated pace, the demand accelerates too much causing a shortage in supply which in turn leads to inflation. Again, the overheating economy

suffocates growth via runaway inflation.

- Economic growth and the balance of payments – if a country is growing, the demand for goods and services may overtake the country's trade balance. If a country cannot supply goods and services from internal resources, it will have to import these products. An imbalance in the importation may negatively affect the economy by undermining local production.

These issues are resolved by government through the manipulation of exchange rates, measures that affect the monetary policy (i. e. interest rates) and the fiscal policy (taxes and spending) in order to achieve the country's long-term economic goals.

## **Managing National Income**

A country's national income measures the value of goods and services that a country produces within a specific time period . The country's national income is normally measured using the Gross Domestic Product (GDP). The GDP is an indicator of growth, living standards and income distribution. The GDP is the country's total value output and can be calculated using the following methods:

- Expenditure Method – Aggregate Demand (AD)

This is achieved by taking the sum of household spending (C), investment spending (I), government spending (G) and the trade balance which is the difference between exports (X) and imports (M). Thus:

$$\text{GDP} = C + I + G + (X - M)$$

- The Income Method - Sum of Incomes

This sums the incomes from the production of goods and services of

employed people (and those that are self-employed), the profits of private businesses and rent from lands.

#### - GDP by Industry Contributions

In this method, the contribution of each type of industry in the economy (agricultural, industrial, commercial, banking, services, others) are added up. The premise is that these industries cover the entire output of the country, having interactions with all sectors within a particular country.

**Conclusion**A country's ability to manage its economic issues through the use of policies and legislative frameworks will equip that country to compete and perform against various economic scenarios. While two countries are never identical in resources and capabilities, it is still an advantage to learn from the approach and experience of other economic managers in determining the best and most effective combination of policies to use.

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