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Literature, Russian Literature



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MACRO AND MICRO ECONOMICS Aggregate spending refers to the value of all finished goods and services in the economy, that is, all the expenses incurred on the consumer goods, planned and unplanned savings and investments, expenses made by the government and the difference between exports and imports. Arithmetically, it can be denoted as $AE = C + I_p + I_u + G + X_n$ where A_e = Aggregate expenditure; C = Household Consumption; I_p = Planned Investment; I_u = Unplanned Investment; G = Government spending and X_n = Net exports (Exports-Imports)

According to Keynesian theory (Arnon, Weinblatt, & Young, 2011), earnings increases only when spending increases in the economy. He believed that one person's spending would always be the other person's earnings, thereby supporting his or her earnings. This cycle would keep on repeating itself thereby supporting a normal functioning economy. An economy normally attains equilibrium when the joint expenditure equals the joint production, but Keynes believed that the economy does not stay in this state. He argued that the total spending and production tend to adjust themselves toward the equilibrium. When there is excess supply than expenditure and demand, the prices and output go down thereby reducing the gross domestic product of the economy, but when there is excess of expenditure than supply, demand goes up thereby making prices and output to go up. It is clear that the economy keeps on shifting between excess supply and demand which enables it to keep on moving towards the equilibrium.

Keynesian equilibrium is only a balance between total expenditure and production and not necessarily other aggregate markets. This makes full

employment not to be fully achieved. The major components of spending in this case are consumption, net exports, government purchases and investment. A change in all or any of them would affect the aggregate demand.

Actual gross domestic product refers to the sum of all the activities of the economy while potential gross domestic product on the other hand refers to the sum of all possible maximum economic activities which can be achieved through maximum deployment of the factors of production, which include expertise, normal resources, labor and capital. This difference between the potential and real gross domestic product is important in the sense that monetary policy makers use it to decide whether the economy needs more or less monetary stimulus with regard to the gap amid them (Arnon et al, 2011).

Multipliers refer to the measure of the extent to which businesses and households are interrelated in an economy. They normally measure the impact caused by introduction of an external change such as new investment or export expansion in an economy. Multipliers are therefore essential since they can be used to measure the influence of a proposed or recent adjustment in the economy; they can also be used to make projections given the variations in a specific segment (Eatwell, & Milgate, 2011).

Market price is always set through an interaction of supply and demand curves at a point denoted to as equilibrium. This equilibrium price can change from one point to another given the spending changes. An outward shift in spending always leads to short-term rise in price due to the fall in

available stock in the market. This higher price then motivates suppliers to raise their output leading to a movement up the short-term supply curve towards the new equilibrium point.

According to Eatwell & Milgate (2011), planned savings are always equal to planned investment at the equilibrium level of output because at this point, unplanned inventory is always changing to zero. For instance, households normally make savings by giving loans to firms and firms borrowing from the household to pay for their investments. It therefore follows that savings refers to the amount that households are willing to give to the firms as well as the amount that firms are willing to get from the households. At equilibrium this amount is always the same.

Reference

Arnon, A., Weinblatt, J., & Young, W. (2011). Perspectives on keynesian economics. Berlin: Springer-Verlag.

Eatwell, & Milgate, M. (2011). J., The fall and rise of Keynesian economics. New York: Oxford University Press.