Fundamentals of macroeconomics assignment

Economics

Macroeconomics takes it into even more detail with comparing and distinguishing nominal versus real values in economics. Nominal GAP is the market value of final goods produced within a country not factoring in inflation. Real GAP factors in those price changes factoring in inflation. There are many other factors that go into macroeconomics that economists use when analyzing the economy. Unemployment is a critical factor when looking at the economy. Unemployment occurs when people are without work and actively seeking work.

The unemployment rate is determined by viding the unemployed individuals by the total of all the individuals in the labor force. Usually when the economy is in a recession or is a slump, the unemployment rate is higher. Inflation plays a significant factor in the economy as well. Inflation is the rise in prices of goods and services over a period of time. The higher the inflation rate, the higher prices go. Interest rate is the rate in which interest is paid by borrowers to lenders providing them money or goods on loan.

The United States economy can be divided into three sectors: businesses, households, and government. Colander stated, “ Households supply labor and other factors of production to businesses and are paid by businesses for doing so. The market where this interaction takes place is called a factor market. Businesses produce goods and services and sell them to households and government. The market where this interaction takes place is called the goods market” (p. 60). Each of these sectors is interconnected and work in collaboration for the betterment of the economy as a whole.

Colander stated, “ President Calvin Coolidge once said, “ The business of America is business” (p. 61). Businesses decide what odds to produce, what services to provide, who to provide these goods and services for, and for whom to provide these goods and services. Businesses make these decisions for their own self-interest with turning a profit as their ultimate goal. However, businesses turning a profit are Just as good for the economy as it is for By deviance purchases groceries, it is good for that particular business that he or she purchased the groceries from as it increases that business’s revenue.

This purchase also shortens their inventory turnover rate, which also helps the business thrive. Households benefit from this as they are receiving the goods from the business, I. E. , the groceries. Households also benefit from this as they provide the labor for this business to sell those groceries to the households. The government plays a role as it taxes these groceries that are purchased originally by the businesses, and again by the household. Colander stated, “ Households (groups of individuals living together and making Joint decisions) are the most powerful economic institution” (p. 5). Households influence the government with the way they vote to put their representatives into office. Households influence businesses by what they purchase and for how much they purchase goods. Their purchase, or “ vote,” lets businesses know where to appropriate their time and money to turn a profit off those “ votes. ” Households also supply the labor for businesses to produce and sell these goods and services. Let us look at the massive layoff of employees as an example. Because households supply the labor to businesses, a massive layoff would increase the supply of those laborers.

This allows businesses to either be more selective in whom they hire as well as find labor at a cheaper price. Governments would be effected by this massive layoff in a couple of ways. There will be an obvious increase in the unemployment rate for that region with a massive layoff that would increase the number of people collective unemployment benefits that the government supplies. This massive layoff would also influence the manner in which those people vote for different policies of reform or for who to put into office.

Colander stated, “ Government plays two general roles in the economy. It’s both a referee (setting the rules that determine relations between business and households) and an actor (collecting money in taxes ND spending that money on projects such as defense and education)” (p. 66). In a market economy, government sets the rules and policies for which businesses and households interact with one another. Government will also step in and change those rules when it sees the need to do so for the greater good of the economy.

Colander stated, “ In its role as both an actor and a referee, government plays a variety of specific roles in the economy. These include; 1. Providing a stable set of institutions and rules; 2. Promoting effective and workable competition; 3. Correcting for externalities; 4. Ensuring economic stability and growth; 5. Providing public goods; 6. Adjusting for undesirable market results” (p. 67). Let us look at the decrease of taxes. This is obviously something that the government would decide and put into effect.

A decrease in taxes could be a response to the previously mentioned scenario of a massive layoff. As the unemployment rate would go up, the spending would most likely go down, therefore negatively affecting the economy. One way the government can help ensure that spending stays the same, or decreases minimally, is to decrease taxes. If the government did not decrease taxes, and the unemployment rate either intended to go up, or stayed high for an extended period of time, it would influence fewer goods and services that would turn less of a profit.

Government lowering taxes can help the households by lowering the costs to purchase goods and services. Government lowering taxes would affect businesses by making it cheaper for them to obtain the goods and services that they would turn around and sell to households. These three sectors of the U. S. Economy are all intertwined and dependent on one another. When one of these sectors takes a hit, the other two take one as well. If one of these sectors is struggling, it is the accessibility of the other two sectors to come to their aid for the greater good of the economy.

The collaboration among households, businesses, and government is vital for the prosperity of the economy. Without this collaboration, the consequences will impact the economy as a whole which will in turn start to impact the economies of foreign countries. There may have been a time when the government would not get involved with the interaction between businesses and households, but those days, at least for now, are long gone. References Colander, D. C. (2010). Macroeconomics (8th De.). Boston, MA: McGraw-Hill/Larkin…