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Unit 9

Assessment

Submitted By

Macro-Economic Analysis and Micro-Economic Analysis

Macroeconomics and microeconomics are the two categories of Economics. The decisions of governments and countries are considered by macroeconomics, and on the other hand, the study of individuals and business decisions is microeconomics (Patterson, et al., 2016). These two branches of economics are interdependent as they complement each other, despite the fact that they appear different. In both the field, there is an existence of several overlapping issues (Patterson, et al., 2016).

Microeconomics

The decisions made by businesses and people regarding the prices at which goods and services are traded and the allocation of resources, are studied in Microeconomics. The government legislation, regulations and taxes are considered by it. Demand and supply, as well as other forces, that determine the price levels in the economy, are the main focus of microeconomics. For the purpose of analysing the economy, a bottom-up

approach needs to be taken (Riley, et al., 2015). In other words, the allocation of resources along with the human decisions and choices are understood by microeconomics. Keeping that in mind, however, the question of what forces should take place in a market in not explained or answered by microeconomics. Instead, when there are changes in certain conditions, it tries to explain what could happen (Riley, et al., 2015). For instance, for a company to lower its prices and be competitive, how it would maximise its production and capacity is examined by microeconomics (Riley, et al., 2015). Company financial statements can be of help to get the microeconomic information.

Macroeconomics

The behaviour of a country and how the who economy is impacted by its policies is studied in macroeconomics. It is top-down approach because it does not analyse the specific companies or individuals and instead analyses entire economies and industries (Wijnhoven, et al., 2015). Questions like "What stimulates economic growth? Or "What rate should the inflation be at?" are answered it.

How the GDP of a country is impacted by the unemployment rate or how a decrease or increase in net exports has an impact on the capital account of the country is analysed by macroeconomics. In order to formulate fiscal and economic policy, governments and their agencies have a reliance on macroeconomics as it focuses on econometric correlations and aggregates (Wijnhoven, et al., 2015). A close eye should be kept on fiscal and monetary policy by those investors who buy interest-rate sensitive securities. For the studying of the broad phenomena, as John Maynard Keynes initiated the use of monetary aggregates, he is often credited as the founder of macroeconomics (Wijnhoven, et al., 2015). *Key differences between macro and micro economics*

- Whole aggregate economy vs a small segment of economy
- Microeconomics has the tendency to work from theory first whereas, a greater emphasis is placed on empirical data by macroeconomics (Wijnhoven, et al., 2015).
- Macroeconomics is more contentious and there are different of thought but there is very little debate about the principles of microeconomics.
- The economy might be in a disequilibrium state for a longer period, whereas, microeconomics is based on the concept that equilibrium is soon created by markets (Wijnhoven, et al., 2015).

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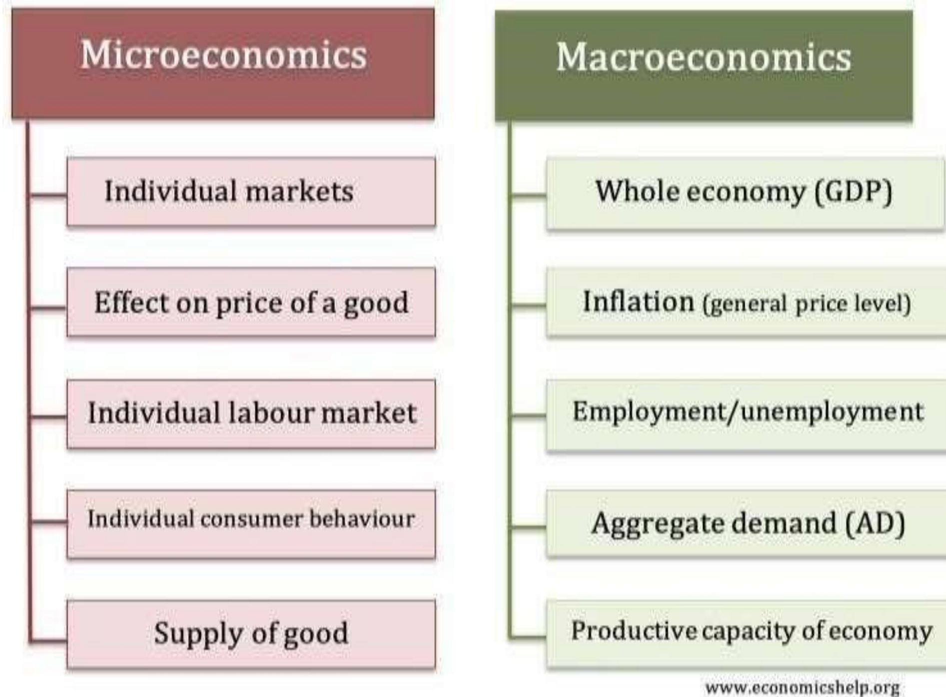

Main objectives of Government economic policies

Protecting employment, development of business, economic prosperity and stable markets are the four major objectives of economic policy. The actions that are taken by governments in the economic field are referred in the economic policy (Mason, et al., 2018). The systems are covered by it for setting the national ownership, labour market, government budget and interest rates, along with several other areas of government interventions. Policy tools, that are under the control of the government, are used by the governments for the achievement of these objectives. Labour market regulations, exchange rates, tariffs, tax and government spending, money supply and interest rate are normally included in this (Mason, et al., 2018).

In the short term, central banks and government are limited in the number of objective that can be achieved by them. For example, for reducing interest rates, unemployment levels and inflation while maintaining currency stability, the government might be under pressure. There is a higher likelihood of the policy to be incoherent is all of them are shortterm goals (Mason, et al., 2018). As a result, a normal consequence of maintaining currency stability and reducing inflation is increasing interest rates and unemployment. Moreover, discretionary policies that were designed to correct the business cycle were adopted by governments for the majority of the 20th century. For the adjustment of unemployment, output and inflation, monetary and fiscal policy was normally used by them (Mason, et al., 2018).

How the Government may pursue its economic objectives?

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Full Employment

The achievement of full employment is the goal of most governments. This means that people who are able and willing to work now have jobs. But it should be kept in mind, that not everyone has the ability to work or wants to work (Goodwin, et al., 2018). They are said to have dependency on those in the labour force. They include those who are disabled to work, those who are too sick, home makers, those engaged in full time education, the retired ones and the children. Apart from them, all others should be fully employed for the government to achieve its economic objectives (Goodwin, et al., 2018). *Price Stability*

Due to the fact that it prevents the country's products from losing international competitiveness, and ensures greater economic certainty, governments aim for price stability.
Workers, households and firms can plan with greater confidence about future level of prices (Goodwin, et al., 2018). Households will not bring purchases forward with the fear that products will be more expensive in the future, and firms expect their costs to be higher so they will not raise their prices. The majority of governments are not aiming for a zero percentage change in price when they are looking to achieve price stability. A stable inflation rate of 2 percent is a common target (Goodwin, et al., 2018).

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Economic Growth

There is an increase in the short-run output of an economy when economic growth is experienced by it. An economy's productive potential has to be increased for it to sustain its growth in the long run. A rise in the quality or quantity of factors of production can lead to this increase (Connell, et al., 2017). The demand and supply side of policies can be used by a government to influence the rate of economic growth. In order to encourage spending and increase disposable income, the cutting down of taxes in involved in fiscal policy. It is important, however, to keep in mind that the budget deficit will increase and it will lead to high borrowing when taxes are lowered down (Connell, et al., 2017). A recession, when consumer spending sees a fall, the fiscal policy is more suitable. Moreover, the domestic demand can be boosted when interest rates are cut down and this is involved in monetary policy (Connell, et al., 2017). The production possibility curve can be used to show the difference between potential and actual economic growth. In the below figure, as more consumer and capital goods are produced, there is representation of actual economic growth, as a movement from point A to point B is seen. The economy has the capability to produce more as potential economic growth is represented by the shift outwards of the production possibility curve.

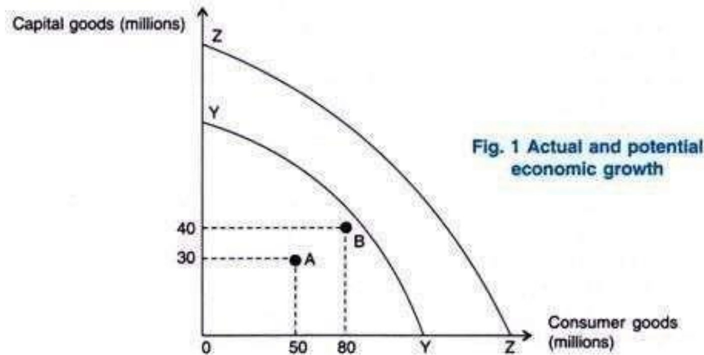

Fig. 1 Actual and potential economic growth

Redistribution of Income

Redistributing income from the rich to the poor might be considered by a government. The more money someone has, the less they tend to appreciate each and every unit. A rich person with an income of $50,000 a week is unlikely to miss $100 but this amount would a huge different in the life of someone who is currently earning $20 a week (Patterson, et al., 2016). Through taxing and spending, the redistribution of income is done by governments. The rich people pay higher taxes than the poor. With the means of benefits such as unemployment benefit, and housing benefit, some of the money raised is directly spent on the poor. Moreover, the poor is benefitted by some other forms of government expenditure, such as that on health and education (Patterson, et al., 2016). The poor might not find them accessible if the government does not provide these services at subsidized prices or free of cost. It is very unlikely that a perfectly equal distribution of income is aimed by governments. This is due to the fact providing very generous benefits and taxing the rich too heavily might act as a disincentive to enterprise and effort (Patterson, et al., 2016).

Balance of Payments Stability

Majority of governments, in the long run, want the value of the imports to be equal to the value of exports. The country will go into debt and will be living beyond its means when its revenue from exports is exceeded by the expenditure on imports, for a very long period of time (Riley, et al., 2015). The country residents will not be enjoying as many products as possible if the import expenditure is lesser than the export revenue. Due to the fact they can be disruptive for the economy, sudden changes in other parts of balance of payments are also avoided by governments (Riley, et al., 2015).

UK's Productivity compared to other countries

The amount of output produced for a given input, such as an hour or day of work, is one of the most essential factors to determine living standards in productivity.

UK labour productivity

Compared with the first quarter, productivity fell by 1.2 percent, in the second quarter of 2021.

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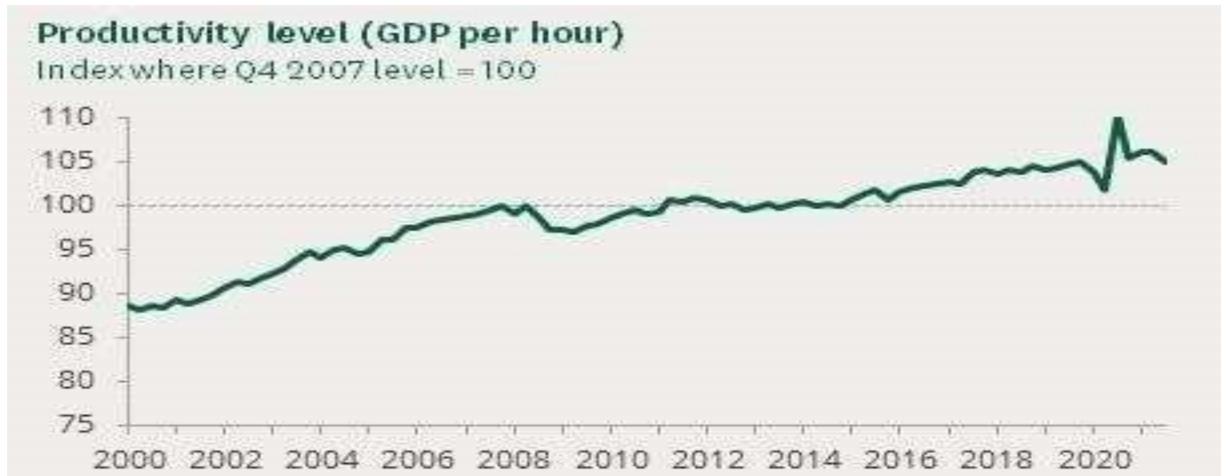
Productivity was 0.1 percent higher in the second quarter of 2021 than before the epidemic (fourth quarter of 2019). The measurement of productivity has faced significant amount of challenges because of the epidemic (Wijnhoven, et al., 2015). The trends of underlying productivity will be difficult to discern for a while, as indicated by this. Historically, every year, there has been 2 percent rise in the labour productivity of UK but since the recession of 20082009, it has stagnated (Wijnhoven, et al., 2015). Look at the chart below.



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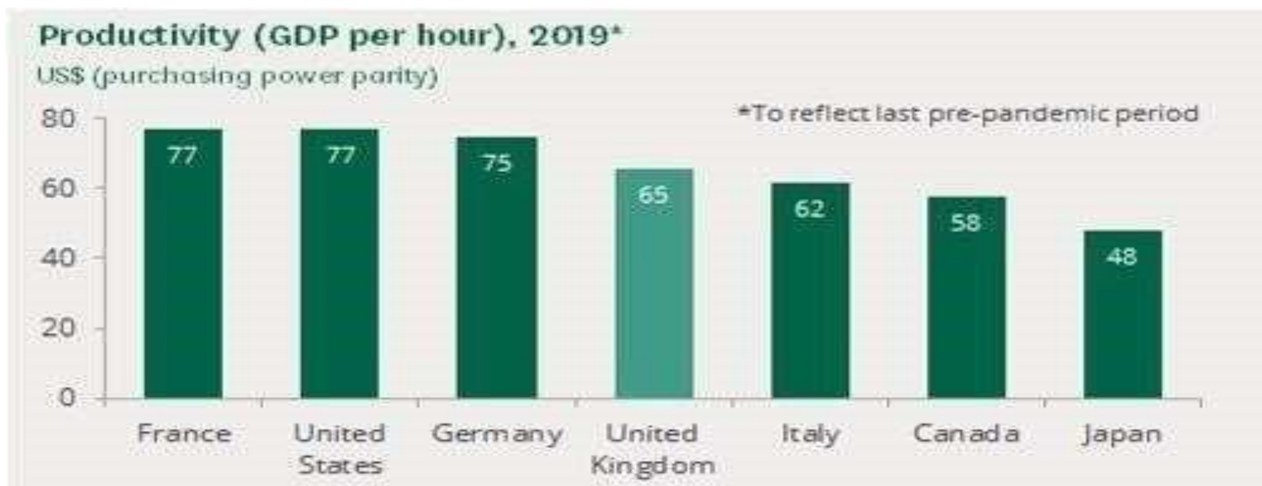
International comparisons

With Japan at the bottom, and USA and France at the top, the United Kingdom came fourth highest out of the G7 countries on the rankings of GDP per hour worked, in 2019.

France and USA's productivity was about 15 percent higher than that of UK (Mason, et al., 2018).



Due to the different ways that are used by countries to measure the number of hours worked,

United Kingdom's gap of productivity with the G7 average is not as great as previously thought, as it is shown in the evidence from the OECD (Mason, et al., 2018). As per a recent research, too few commercial patents, weak management and low business investment are the main factors for

United Kingdom's weak productivity record.

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