UNIT – I

Nature of macroeconomics and the circular flow

Macro · Stocks · Circular flow · Identities

Explanatory Lecture Slides

Macro Economics · Major-6 · Semester IV

MACRO ECONOMICS

LEARNING OBJECTIVES

Topics covered in this unit

01 Define macroeconomics and its scope

02 Distinguish stock and flow

03 Draw 2-, 3- and 4-sector circular flow

04 State the basic identities

05 Place micro–macro relations

06 Hook the Budget and RBI as macro actors

How this unit is organised

01	02	03	04	05	06
What is macro?	Stock v flow	Circular flow	Identities	Micro and macro	Actors

What is macro?

The study of aggregates: NI, employment, inflation, BOP, growth. Born as a field after Keynes; India teaches it as a policy science (Budget, MPC).

- Scope: determination of income and employment, money, inflation, cycles, growth, open-economy macro.
- Fallacy of composition: what is true of a household (thrift) may harm the whole (paradox of thrift).

What is macro?

ASKS

- Why is output where it is?
- Why is P rising?

DOES NOT ASK

- The price of one firm’s good.

Stock v flow

Stock: a level at a moment (capital, money, debt, wealth). Flow: a rate through time (income, investment, deficit, depreciation).

- A 6-mark. GDP is a flow; capital stock is a stock. Fiscal deficit is a flow; public debt is a stock.

Stock v flow

STOCK

- Money supply.
- Capital.
- Debt.

FLOW

- Y.
- I.
- Deficit.

Circular flow

2-sector: C and S/I. 3-sector: +G and T. 4-sector: +X and M. Equilibrium: S+T+M = I+G+X.

- A 10-mark diagram-in-words. Leakages = injections is the only identity you must not scramble.

Circular flow

LEAKAGES

- S, T, M.

INJECTIONS

- I, G, X.

Identities

$Y \equiv C + I + G + NX$ (expenditure). $Y \equiv C + S + T$ (allocation of income). Hence $I + G + X \equiv S + T + M$.

- Identity v equilibrium: the identity always holds ex post (unintended inventory is I); equilibrium holds when plans match.
- That distinction is a first-class sentence.

Identities

EX POST

- Always true — including unsold stocks as I.

EX ANTE

- Plans of C, I, G — may not match.

Micro and macro

Micro builds the pieces; macro asks about coordination. Keynes: the whole is not the sum, because one person's spending is another's income.

- Law: a single contract is micro; a payments-system failure is macro. RBI and SEBI live on that line.

Micro and macro

MICRO TOOL IN MACRO

- MPC is a household idea aggregated.

MACRO FACT IN MICRO

- Inflation rewrites every contract’s real value.

Actors

Households, firms, government (Budget, FRBM), RBI (MPC, 4(2) of the RBI Act as amended), rest of the world (WTO, capital flows).

- Name Art. 112 and the MPC when you need a legal caption.

Actors

FISCAL

- Budget.
- FRBM.
- GST.

MONETARY

- RBI.
- MPC.
- repo.

Identities

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LANDMARK AUTHORITIES

Cases a KSLU answer should name

CASE

RBI v Jayantilal N. Mistry

(2016) 3 SCC 525

RBI’s information-duty — the macro actor is not a black box.

CASE

Namit Sharma v Union of India

(2013) 1 SCC 745

Information commissions are public actors — transparency of the macro institution is part of its job.

CASE

Kesavananda Bharati

(1973) 4 SCC 225

The Budget power still sits inside a Constitution.

STATUTE / SECTION MAP

Provisions & materials to quote

Art. 112	The fiscal actor’s annual identity.
RBI Act (MPC amendment	The monetary actor.
FRBM Act 2003	The deficit identity as a rule.
Art. 280	Federal macro: sharing the tax pool.
Payment and Settlement	The plumbing of the circular flow of money.

WRITE IT IN THE HALL

10 / 16-mark frames from this unit

Q1 Define macroeconomics. How does it differ from microeconomics?

Q2 Distinguish stocks and flows with examples.

Q3 Explain the circular flow of income in a four-sector economy.

Q4 Write a note on the paradox of thrift / leakages and injections.

BEFORE YOU CLOSE THE FILE

Unit recap

1. Macro = aggregates and coordination failures.
2. Stock at a date; flow through a period.
3. S+T+M = I+G+X in eqm.
4. Identity always; equilibrium when plans match.
5. Budget + MPC are the two legal actors.