Learning Objectives

Upon completion of this unit, students should be able to:

1. Discuss macroeconomics and the national economy.
2. Discuss economic fluctuations and growth.
3. Explain aggregate demand and aggregate supply.
4. Describe productivity and growth in practice.
5. Discuss other issues of technology and growth.

Unit Summary

As presented in Unit I, macroeconomics is the study of economic behavior for entire economies. Unit III introduces the behavior, trends, and growth of the macro economy, as well as the tools used to measure macroeconomic occurrences. An economy is a complicated structure of market activity which can be analyzed at the global, country, regional, or community levels. Chapters 5 and 6 introduce the tools required for examining these complex macroeconomic systems.

An economy’s performance is generally measured using gross domestic product (GDP) or the market value of all final goods and services produced in a nation during a particular period of time. GDP is also known as a nation’s income or output. Given the circular flow of economic activity presented in Unit I, it is clear that total output sold for a nation becomes the income of its working citizens.

Economies experience natural fluctuations in growth over time, and this constant “wave” of activity is better known as the business cycle. This cycle is a series of economic expansions and contractions, which are simply periods of rising and falling output, respectively. During periods of expansion, GDP increases, more people find employment, and goods and services tend to increase in price.
The overall increase in prices that accompanies an economic expansion is called inflation. During economic contractions, the opposite is true. Therefore, as GDP increases, the unemployment rate decreases and inflation rises. Conversely, as national output declines, people lose jobs and price levels are reduced.

![The Aggregate Model](image.png)

The aggregate model above will be used from this unit forward to analyze market interactions for an entire economy. This model behaves similarly to the supply and demand graph of Unit II.

Though the constant oscillation of economic activity seems natural, government entities and private businesses use valuable resources to calculate, analyze, and predict these movements. In fact, governments can use various forms of policy to influence the business cycle when necessary. (Government and Fed policies will be discussed in Unit VI and Unit VII.) The role of most macro-economists is to measure and observe the fluctuations that occur in the business cycle to determine what public and private policy changes should be made.