Research and Reviews: Journal of Social Sciences

Factors Influencing Macroeconomics: Long-Term Level and Growth of National Income

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Opinion Article

Received: 05-May-2023, Manuscript No. JSS-23-98009; **Editor assigned:** 09-May-2023, Pre QC No. JSS-23-98009 (PQ); **Reviewed:** 23-May-2023, QC No. JSS-23-98009; **Revised:** 30-May-2023, Manuscript No. JSS-23-98009 (R); **Published:** 06-Jun-2023, DOI: 10.4172/JSocSci.9.2.006

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Citation: Andrus R. Factors Influencing Macroeconomics: Long-Term Level and Growth of National Income. RRJ Soc Sci. 2023;9:006.

ABOUT THE STUDY

Macroeconomics looks at the economy as a whole to explain broad aggregates and their interactions from the top down, using a simplified version of general-equilibrium theory. National income and output, the unemployment rate, and price inflation are examples of aggregates, sub aggregates such as total consumption and investment spending and their components. It also investigates the effects of monetary and fiscal policy. Since at least the 1960s, macroeconomics has been distinguished by greater integration in terms of micro-based sector modeling, including player rationality, efficient use of market information, and imperfect competition. This has addressed a long-standing concern about inconsistencies in the same subject's development. Macroeconomic analysis also takes into account factors that influence the long-term level and growth of national income. Capital accumulation, technological change, and labor force growth are examples of such factors.

Growth

Growth economics investigates the factors that explain economic growth-a country's increase in output per capita over time. The same factors are used to explain differences in per capita output between countries, specifically why some countries grow faster than others and whether countries converge at the same rates of growth. Factors that have received a lot of attention include the rate of investment, population growth, and technological change. These are represented theoretically and empirically, as well as in growth accounting.

Business cycle

The economics of a depression prompted the establishment of "macroeconomics" as a separate discipline. During the 1930s Great Depression, John Maynard Keynes wrote The General Theory of Employment, Interest, and Money, which outlined the key theories of Keynesian economics. Keynes contended that during economic downturns, aggregate demand for goods may be insufficient, resulting in unnecessarily high unemployment and potential output losses. As a result, he advocated for active public policy responses, such as monetary policy actions by the central bank and fiscal policy actions by the government, to stabilize output over the business cycle. Thus, a central conclusion of Keynesian economics is that there is no strong automatic mechanism that moves output and employment towards full employment levels in some situations. The most influential interpretation of The General Theory has been John Hicks' IS/LM model.

Unemployment

The unemployment rate, or the percentage of workers without jobs in the labor force, measures the amount of unemployment in an economy. The labor force only includes people who are actively looking for work. People who are retired, studying, or discouraged from looking for work due to a lack of job opportunities are excluded from the labor force. Unemployment can be classified into several types, each of which is caused by a different factor. Traditional unemployment models occur when wages are too high for employers to be willing to hire more workers. As with classical unemployment, frictional unemployment occurs when suitable job openings exist for a worker but the time required searching for and finding the job results in a period of unemployment.

Monetary policy

In most price system economies, money is a means of final payment for goods, and it is the unit of account in which prices are typically stated. Money has broad acceptance, relative consistency in value, divisibility, durability, portability, supply elasticity, and longevity, as well as widespread public trust. It includes nonbank public currency and checkable deposits. It has been described as a social convention, similar to language that is useful to one because it is useful to others.

Fiscal policy

Fiscal policy is implemented by governments to influence macroeconomic conditions by adjusting spending and taxation policies to alter aggregate demand. When aggregate demand falls below the economy's potential output, there is an output gap in which some productive capacity is left idle. Governments increase spending while decreasing taxes in order to boost aggregate demand. The government can make use of resources that have been idled.

Unemployed home builders, for example, could be hired to expand highways. Tax cuts encourage consumers to spend more, which boosts aggregate demand.

Inequality

Income inequality is measured by the distribution of income (the amount of money people receive), and wealth inequality is measured by the distribution of wealth (the amount of wealth people own), as well as other measures such as consumption, land ownership, and human capital. Inequality exists to varying degrees across countries or states, groups of people, and individuals. There are numerous methods for measuring inequality, with the Gini coefficient being widely used for individual income differences. The Inequality-adjusted Human Development Index, a composite index that takes inequality into account, is one example of a measure of inequality between countries. Equity, equality of outcome, and equality of opportunity are all important concepts in equality.