

Dear Readers,

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- 1) The entrepreneur takes the initiative in combining resources of land, labour and capital.
- 2) The entrepreneur is a risk-taker.
- 3) The entrepreneur gets into the decision-making process in which proprietary business enterprise to the desired end.
- 4) The entrepreneur runs the risk – as in a risk-bearing. The entrepreneur takes responsibility for his actions.

1.1. The Economic Perspective

(GDP)

Income
(Land, Capital, Labour)

1. Introduction into Macroeconomics

1.1.1. Scarcity and Choice

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Consider potential output corresponding to a 6 percent rate of unemployment. At this point, the Phillips curve shows a 10 percent rate of inflation. The Phillips curve shows that as the rate of unemployment falls below the natural rate, the rate of inflation increases. In Figure 10.1, the left-hand side shows the rate of inflation increases as the rate of unemployment falls below the natural rate. The right-hand side shows the rate of inflation decreases as the rate of unemployment rises above the natural rate. The Phillips curve is a short-run curve, however, it might be a long-run curve as well. The Phillips curve depicts the trade-off between inflation and unemployment. The theory states that a country can obtain lower level of unemployment if it is willing and able to withstand the higher price of inflation. Each Phillips curve.

¹ See Samuelson-Nordhaus [11]

11.1. Policy Instruments

11. Macroeconomic Policy

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Exchange rate flexibility	Price level stability
Export and import equilibrium	Under the market
Controlling the wage-price spiral	

Table 11.1 Goals (objectives) and instruments of macroeconomic policy. The left-hand column includes the list of the main goals of macroeconomic policy. The major instruments or policies affecting economic growth, employment, inflation, and international trade are listed in the right-hand column. The instruments of macroeconomic policy are classified into three categories: fiscal, monetary, and international trade. The instruments of macroeconomic policy are classified into three categories: fiscal, monetary, and international trade.

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...decrease total output, employment and inflation.

To examine money-creation process see chapter 7.

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¹ See Dornbusch-Fisher-Starz [7]

Peak The highest point called pragmatically "peak" lying on the line of real GDP relates to the situation at which the enterprising activity reaches its temporary maximum. Here the level of real output is very close to capacity of the economy. The inputs are used fully and the rate of unemployment could be temporarily lower than the natural rate of unemployment. The price level is likely to rise during this phase and sometimes economists warn against overheating the economy.

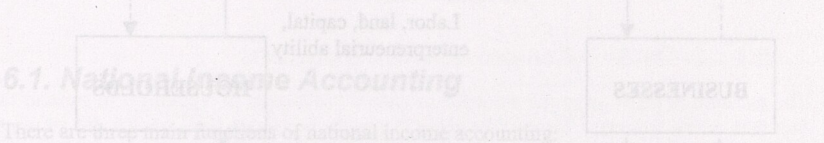
Recession (Contraction) of recession (contraction) represents a period of decline in total real output. This is accompanied by decreased business investment and increased unemployment. The behaviour of the price level is not unambiguous. Contraction originated by demand shock (negative demand shock) is connected with declining price level. Contraction caused by supply (negative supply shock) implies rising price-level. High unemployment accompanied by rising price level is called stagflation.

Trough The lowest level of the contraction phase is called the trough or the trough. Economic activity in this point is accompanied by high level of unemployment. This phase of the cycle may last short as well as relatively long time.

5. Business Cycles

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The lower-level resource market is where the resources supplied by firms are bought and sold. Households demand these goods and services in order to satisfy their needs and wishes. The money income they have received from the sale of the resources in the resource market is used for purchasing final goods and services in the product market. Thus, the product prices are established due to interaction of demand and firms' supply decisions in the product market.



6.1. National Income Accounting

- a) A national accounting system is kept the economy of the nation under permanent control.
- b) System of national accounting and the national accounts as a chosen period.
- c) National accounts provide us with information that serve as a basis for planning, designing and studying macroeconomic policies. We can assess the health of the economy due to national accounting and accordingly formulate policies to stabilize and improve the performance of the economy.

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