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Micro & Macro Economics

The Evolution of Macroeconomics

Macroeconomics developed as a discipline in its own right in the 1930s when it became apparent that classic economic theory (derived from microeconomics) was not always directly applicable to nationwide economic behavior. Classic economic theory assumes that economies always return to a state of equilibrium. In essence, this means that if demand for a product increases, the prices for that product get higher and individual companies rise to meet the demand. However, during the Great Depression, there was low output and wide-scale unemployment. Clearly, this did not indicate equilibrium on a macroeconomic scale.

In response to this, John Maynard Keynes published "The General Theory of Employment, Interest and Money," which identified the potential and reasons for a negative output gap over a prolonged period of time on a macroeconomic scale. Keynes' work, along with that of other economists, such as Irving Fisher, played a large role in establishing macroeconomics as a separate field of study.

Special Considerations

While there are differential lines between microeconomics and macroeconomics, they are interdependent to a large extent. A prime example of this interdependency is inflation. Inflation and its implications for the cost of living are a common focus of investigation in the study of macroeconomics. However, since inflation raises the prices of services and commodities, it can also have acute implications for individual households and companies. Companies may be compelled to raise prices to respond to the increasing amounts that they have to pay for materials and the inflated wages they have to pay to their employees.