THE ROLE OF MACROECONOMIC INDICATORS IN ECONOMIC DEVELOPMENT

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A macroeconomic model is used to analyze macroeconomic situations and determine the optimal macroeconomic policy. The macroeconomic model varies according to the degree of interdependence of the variables and the methods of exiting the crisis. Macroeconomic models based on neoclassical theory and neo-Keynesian theory mainly describe the methods of achieving economic growth. Examples of macroeconomic models are the AD-AS model, the IS-LM model, and the Solow model.

The state uses fiscal and monetary policy to regulate the economy. Fiscal policy considers the state's budget parameters and tax rates, while monetary policy changes the indicators of the money supply. Most of the major crises in the world occurred as a result of countries' incorrect macroeconomic policies or insufficient control of the economy.

According to economists Amy Nakamura and John Steinsson in 2018, even after so many crises, the results of various macroeconomic policies implemented by countries are not always positive and, therefore, such policies remain under criticism. Because the macroeconomic decisions taken during the COVID-19 pandemic were not effective enough, it did not help the economy or save lives as expected.

Problems that have not found their solution at the microeconomic level are considered at the macroeconomic level:

- Economic growth, economic cycles. What is economic growth? How to determine the rate of economic growth? What factors influence economic growth? What is the role of economic growth in state welfare?
- Unemployment. What category of population is considered unemployed? How does unemployment affect the economy? How to get rid of unemployment? How to identify types of unemployment?
- General level of prices. What is meant by general price level? How does a change in prices affect economic equilibrium? What is inflation? How can inflation be beneficial to the economy?

- Money circulation, Interest rate. What is the role of money in macroeconomics? What affects the interest rate and what are the factors that make it up?
- Trade balance. Why do countries trade with each other? How do net exports affect a country's exchange rate?

Macroeconomics emerged as a science in the 1930s. However, by this time, theories on the working mechanism of the economy and various ideas about the economic policy of the state had already appeared by various scientists. Due to the different goals and methods of these theories, more than 10 schools of macroeconomics have emerged, each with its own macroeconomic doctrine.

From Mercantilism to Marxism

In the 15th century, the first school of economic teachings in history, mercantilism, was born. Antoine Montchrestien de Watteville, William Stafford, Thomas Moon and Jean-Baptiste Colbert are considered scholars who contributed to the development of this school. The goal of the mercantilist school was to increase the money supply and support the balance of payments through government intervention (by increasing exports and restricting imports).

In the middle of the 18th century, a school of physiocrats was formed (François Quesnay, Anne Robert Jacques Turgot, Victor Riqueti, Marquis de Mirabeau and Pierre-Paul Le Mercier de La Rivière). The importance of agriculture was high in the ideas brought by the Physiocrats. According to the doctrine of physiocratism, land was considered the only factor of production. In an economic model called Tableau économique, the physiocrat François Quesnay gave reasons for the emergence of "pure output" by dividing society into peasants, artisans, and proprietors.

Classical school

Supporters of a self-regulating economic system are considered members of the classical school of macroeconomics. Classical macroeconomics theory appeared in the 17th century. According to William Petty, one of the founders of the school, the source of wealth is land and labor. The phrase "Labor is the father of wealth, and the earth is its mother" belongs to W. Petty. At the end of the 18th century, the 2nd stage of the development of classical economic theory began. According to Adam Smith in his work "An Inquiry into the Nature and Causes of the Wealth of Nations", the market can govern itself based on free prices formed on the basis of supply and demand (the theory of the invisible hand of the market).

Later, based on the theory of laissez-faire, a hypothesis about a permanent stable economy appeared. According to the hypothesis, all markets are perfectly competitive, constant price changes depend on supply and demand, and the market can reach equilibrium without any intervention. In the 19th century, based on his theory of relative advantage, David Ricardo proved that foreign economic activity organized between any countries would be beneficial to both countries. According to another economist, Jean-Baptiste Say, there cannot be an inequality between aggregate demand and aggregate supply, because aggregate supply creates aggregate demand. This idea later entered science as Say's Law. The main problem studied by representatives of the classical school was the lack of resources. Also, they did not divide the economic period into short and long periods. The classic school model almost didn't work during the Great Depression and World War II because the economy was in such dire straits that the market couldn't balance.

Austrian school

The Austrian school was founded at the end of the 19th century. The school's teaching was based on the idea of marginalism and research on human behavior. The earliest ideas about marginalism can be found in the book "Grundsätze der Volkswirtschaftslehre" written by the Austrian economist Carl Menger in 1871[30]. According to this school, mathematical modeling in economics is impossible due to the complexity of human nature and the ever-changing nature of market conditions. Therefore, the principles of free economy (laissez-faire) and economic liberalism are the main ones in economic policy. Followers of the Austrian school advocated the protection of freedom of contracts concluded by market participants (economic agents) and non-interference (especially by the state) in transactions. Notable members of the school include Carl Menger, Eugen von Böhm-Bawerk, Ludwig von Mises, Henry Hazlitt, Murray Rothbard and Nobel Laureate Friedrich Hayek.

Neoclassical school

The neoclassical school promoted the idea of limiting the state's intervention in the market economy. The economic ideas of Alfred Marshall, the founder of the school, were as follows:

- The creation of monopolies harms the welfare of society.
- Marginal utility and marginal cost are factors that determine the price of goods in the market in the short term.
- Events in the economy occur in the short and long term. In macroeconomics, if in the long-term period, all variables, in particular, wages, price levels, and economic agents are considered variable, then in the short-term period, one or several of these indicators will not change. In the long run, the country reaches its maximum potential production and natural unemployment rate.

One of the representatives of this school, Léon Walras tried to develop a model of general economic equilibrium, and Joseph Schumpeter tried to show the internal forces of change in economic systems. American economist-mathematician E. Roy Weintraub states that neoclassical economics is based on the following principles:

- Economic agents make rational decisions.
- Consumers seek to maximize utility, firms seek to maximize profits.
- Economic agents make independent decisions based on complete and up-to-date information.

The theory proposed by Alfred Marshall included not only the marginalists' theory of utility, but also the classics' theory of labor. That is, when demand and supply curves are given, marginal utility is taken instead of demand, and marginal cost is taken as supply. According to Marshall, neither demand alone nor supply alone determines price: “Demand and supply are like 2 ends of a pair of paper scissors”.

The Keynesian revolution

John Maynard Keynes founded the Keynesian school in 1936. By this time, the position of classical self-regulating economics had been undermined by the societal losses caused by the Great Depression. Based on the experience of the First World War and the Great Depression of 1929-1933, Keynes came to conclusions that refuted the teachings of the classical school. First, it proved that there is not only perfect competition in the market. Second, according to Keynes, prices can remain unchanged in the short term regardless of supply and demand. According to the Keynesian doctrine, the economy is not always stable, and in such cases, the state is required to intervene in the economy to solve some problems. Because of this idea, Keynes was considered a supporter of a mixed economy. Famous representatives of the Keynesian school are William Phillips, Ben Bernanke and James Tobin.

Supporters of Keynesian ideas soon grew. In the second half of the 20th century, the neo-Keynesian school was established in order to "adjust Keynesianism to the requirements of modern economic analysis" and to find connections with other neoclassical ideas. According to the neo-Keynesian doctrine, the capitalist economy loses the mechanism of spontaneous regulation of the economic balance in the new conditions, and the need for its permanent and direct regulation by the state arises. Therefore, the main problems of state regulation of the economy have also changed, and great attention has been paid to the theory of economic growth from the employment theory of anti-crisis regulation.

Macroeconomics is a social science. Therefore, the timing of economic events cannot be precisely determined; it is possible to observe the behavior of macroeconomic agents and make approximate forecasts accordingly. In the process of analysis, economic models make the study of the economy much easier and explain the reasons for the main economic changes. However, many economic models have serious flaws and do not take into account important factors.

Economics is analyzed using graphs, tables, charts and mathematical functions. All macroeconomic parameters are assumed to be considered at a specific time interval or at a specific moment. All variables in macroeconomics are divided into 2 groups:

- Streams. These are the variables considered within a specific time period (year). Flows can include investments, state budget, exports, imports, and gross domestic product.
- Reserves. Indicators that study data in the current state. Examples of reserves include the amount of wealth, the number of unemployed, and the national debt.

Analysis of macroeconomic indicators is divided into positive and normative analysis. Positive analysis determines and explains the state of the economy and is the basis for forecasts. Normative analysis shows what economic changes should be made. Macroeconomic research is carried out in a situation "ceteris paribus" (other things being equal). That is, while one variable is being studied, other variables are held constant.

Another important task of macroeconomic policy is to achieve economic growth. At the theoretical level, the theory of economic growth deals with income inequality, differences in economic growth rates between countries, and sustainable development. The first studies investigating these issues were reflected in the Malthusian doctrine, whose main idea was to reduce the birth rate in the 18th century. Thomas Robert Malthus, in his "Experiment on the Law of Population", argued that the population increases very quickly, while the growth of food production lags far behind.

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