

# Influence of Macroeconomic Variables (Balance of Payments, Inflation, Economic Growth, and Unemployment) in the Process of Policy-Making in a Country

Karpagavalli S

MBA Finance, Loyola College, Chennai

\*Corresponding Author Email: sriramkarpagavalli@gmail.com

## Abstract

This paper mostly analyses the microeconomic variable effects in the economic structure of the country. The effects on unemployment and inflation decrease the economic growth of the country. For analysing the economic structure of the country, this research study has adopted secondary qualitative data analysis and a descriptive research design. In this case, unemployment and inflation are related to each other. Mostly unemployment increases then inflation decreases and if inflation decreases then unemployment increases. For this reason, to develop the country's economic condition, an effective policy-making process can help to improve this situation. With the bits of help of economic policies, the country can get the chance to build a strong economic structure in an effective manner.

## Keywords

Inflation, Microeconomic, Phillips's curve.

## INTRODUCTION

Macroeconomics is the most critical part of a country that can help to develop the entire economic condition. It represents the entire economic condition of a country. Microeconomics mostly varies on the unemployment rate, inflation, and economic growth. Several factors are influenced in a country through microeconomics. These economic factors help to analyse individual forms of the economy. The microeconomic condition of the country can make policies for developing the economic condition. Unemployment and inflation mostly decrease the economic condition of a country. At this point, the implication of effective economic policies helps to improve the economic condition. In this way, using significant methods and techniques helps to find the influence of microeconomic variables and helps to make effective economic policies of a country that can help to develop the entire economic condition.

### Effects of unemployment and inflation in the economy

In the microeconomic condition, unemployment is the most effective measure that can help to understand the economic condition of the country. Unemployment, affects Gross domestic products (GDP), wages, and pricing of goods. In the statement of [4], the unemployment rate and inflation are related to each other. The unemployment rate is below the natural rate, it mainly helps to increase inflation. On the other hand, if the unemployment rate is higher than the natural rate, then it decreases the inflation of a country [12]. Depending on the unemployment rate of a country, the entire economic condition fluctuates. The unemployment rate

mostly affects the economic structure negatively. Moreover, increasing inflation decreases the lifestyle of the people and the entire economic condition of the country faces several problems. Mainly, inflation has happened because of the unavailability of products and services. Most significantly, if the country's agricultural processes are hampered by any reason the products and services are unavailable. Also, the industry's functions have stopped and the unemployment rate increases. For this reason, the country has exported goods from outside the country at a higher price. In this condition, most of the production process has stopped for unavailable resources, and inflation increases rapidly.

According to the 'Phillips curve' shows that unemployment rate and inflation are inverse relation with each other [7]. This 'L' shape curve represents that when the unemployment rate increases inflation decreases and when the inflation decreases then the unemployment decreases.

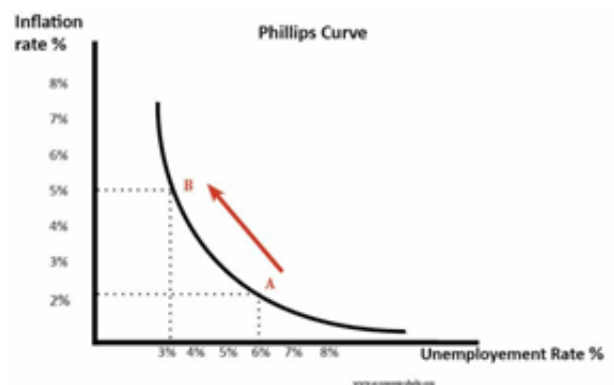


Figure 1: Phillips curve  
(Source: Lumen, 2020)

### The implication of economic policy in a country

In the microeconomic, policymaking is the most important part that can develop the economic condition of the country. In the words of [2], in this policy-making process, several microeconomic factors such as unemployment, inflation, the balance of wages, and others influence significantly. In this segment, the country has faced many issues and these factors mostly damage the economic condition of the country. In this part, the implication of effective economic policy can help to establish an effective economic structure. In the policy implementation, set prices of the products are the most significant factor. To reduce the economic crisis of a country, effective policymaking is the only way that can improve the economic structure. Implementation of economic policy in a country first needs to analyse the main issues of that country.

Unemployment and inflation mostly create disturbance in the economic condition. For this reason, before implementing policy, it needs to identify the cause of the economic crisis. Based on this factor, countries can implement their policies. With the help of economic policy, the employment rate can increase, and through increasing the employment rate the inflation can decrease [9]. Economic policy can help to change demographic conditions, growth of production, and increase the employment rate. Effective economic policies can reduce the entire country's macroeconomic challenges and help to establish the proper economic structure of a country.

### METHODS AND TECHNIQUES

In the research study, the methodology and techniques are the most significant factor. In research analysis, the methodology is mostly based on the data collection process. One is the primary data collection process and another one is the secondary data collection process. This study follows the *secondary qualitative data collection process* because in this Covid-19 outbreak situation the primary data collection process was not possible. In this secondary data collection process, the researcher has collected the data from internet sources. The secondary data has been collected mostly from the previous research articles which were published 5 years ago [6]. On the other hand, authentic websites were used in this research paper for collecting secondary data. The authentic journals, books, and online research papers in pdf format help to complete this study.

This secondary qualitative data analysis process helps to find the authentic result of this study. This secondary qualitative data collection process helps to compare the result with the previous findings from the online research articles. In this research paper, the *descriptive research design* has been adopted to find the result. With the help of this secondary qualitative data, this research paper has adopted *thematic analysis*. This data analysis process can help to represent the findings properly.

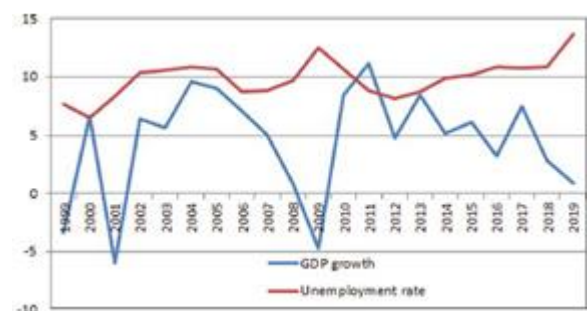
### RESULT AND DISCUSSION

In a research study, the secondary qualitative analysis is the most effective part that can easily represent the present realistic result. With the help of this secondary data analysis, this research paper can compare the previous citation with the present condition. From this result, it helps to understand the improvement and demotion of that topic which analysis in this research.

### Relationship between unemployment and inflation

In the microeconomy, unemployment and inflation are significantly related to each other. These two factors are decreasing the economic condition of the country. In this case, the unemployment rate and inflation mostly affect the economic condition of the country. In an economic growth, unemployment is the most important factor. Unemployment rate increases through the effects of several factors of the country [11]. The most effective factor is the demographic structure. At this point, if the country's demographic conditions are not stable and the population is high then the unemployment rate increases rapidly. With the help of increasing the unemployment rate it also increases inflation.

On the other hand, resource unavailability is another factor that can help to increase the unemployment rate. In this segment, mostly the unavailability of resources stopped many industries from manufacturing products. It also decreases the production rate, for this reason, inflation happens in the economic sector. Another reason for unemployment is lots of unskilled labour. In this case, the unskilled labour has damaged the production process of the country and helps to increase inflation [5]. The relation between unemployment and inflation is related to each other. Unemployment and inflation help to increase the GDP of the country. This unemployment and inflation created a complex structure of the economy and also hampered the lifestyle of people in that country.



**Figure 2:** Relationship between unemployment and inflation  
(Source: Sasongko and Hurut 2019)

### Impacts the unemployment and inflation in the economy

The unemployment rate and inflation create issues in the economic structure of the country. An increase in the unemployment rate creates instability in the economic structure of the country. This GDP can increase, and the other production processes get hampered. The most effective

impact, through this unemployment, is that the industries cannot run properly, and the production process can be

disrupted and prices of the products can increase. This entire impact of the economy affects the lifestyle of the people.

Objectives	Effects
<b>Purchasing power</b>	Unemployment and inflation affect the economy significantly. This factor weakens the people in the direction of the economy [3] This factor mainly decreases the purchasing power of the people and for this reason, the entire economy has effects.
<b>Encourage spending</b>	Unemployment and inflation are effects to increase the spending and investment of the people. In this case, when the prices of goods were increased then people spent their money more to buy the products, and savings were decreased in this segment.
<b>Reduce unemployment</b>	The positive effect of inflation is reducing unemployment. Increasing the prices of goods decrease the purchasing ability of the people [8]. For this reason, the people who fulfil their needs try to engage with the job and earn more money for improving their lifestyle.
<b>Weakness of currency</b>	The most significant effects of inflation and unemployment are the currency of the country. For this reason, the country decreases its international business ability in the global market.

**Table 1:** Impacts the unemployment and inflation in the economy

### **Influence of macroeconomic variables in the policy-making process**

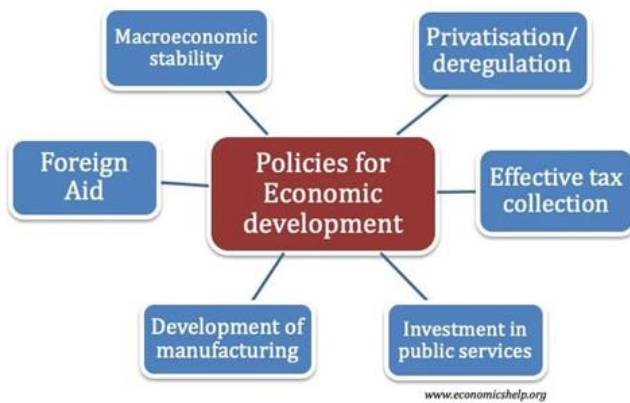
The microeconomic variables influence the entire economic condition of the country. The microeconomic variables affected the economy such as unemployment rate, inflation and economic growth and production process. In this case, the unemployment rate and the inflation mostly lead the economic structure down worth. These factors mostly decree the month of the production process and economic growth of the country. For this reason, to develop the entire structure of the economy the country needs to adopt an effective policy-making process that can help to improve the economic structure [10]. In this segment, first, it needs to identify the causes of unemployment and inflation. After identifying this reason for the economic instability, it needs to adopt effective economic policies that can help to improve the economic structure. On this point, if it could not adopt the proper policies then the country would not be able to solve these economic challenges.

### **Economic policy can help to improve the economic structure of the country**

The economic policies can help to find the proper solution for the development of the economic structure of the country. In this segment, microeconomic stability is an effective role to play to improve the economic structure. In this microeconomic stability depends on the entire economic structure of a country. At this point, the country needs to

handle its unemployment rate, production process and increase economic growth. For developing these factors, the country needs to take an effective policy-making process that can significantly affect the entire economic structure of the country. On the other hand, many other factors are there which can help to develop the economic structure of the country.

Privatization is the most significant role to play to develop the economic condition. Reducing the unemployment privatization can help to give employment to the people of the country. Build the proper tax collection process that can also increase the currency of the country [1]. This country also needs to invest in the public sector to develop the lifestyle of the people. On the other hand, developing the economic structure of the country needs to increase the manufacturing industries and provide better services to the people. This segment mostly needed skills training for the unemployed people. Therefore, they can join in the production process and increase economic development.



**Figure 3:** Policies for economic development  
(Source: Baloch *et al.* 2019)

### CONCLUSION

After all these discussions it can be concluded that microeconomic variables significantly affect the entire economic structure of the country. Unemployment and inflation mostly affect the economy. On the other hand, it disgraces the production process of the country and the growth of the economy. For this reason, to solve these problems the only way is to adopt effective policies which can develop the economic structure of the country.

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