

The Panorama of Macroeconomics

Lecture 20: The Main Macroeconomic Issues

Paulo Fagandini

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Recap: Where We Have Been

Microeconomics block

- 1 Fundamentals, scarcity, opportunity cost
- 2 Consumer theory — preferences, utility, demand
- 3 Producer theory — costs, profit, supply
- 4 Market equilibrium — price & quantity

Today we zoom out

We move from individual markets to the **economy as a whole**

Game Theory block

- 5 Strategic interaction — Nash equilibrium
- 6 Sequential games — backward induction

Part I: From Micro to Macro

The Key Difference

Microeconomics

Studies **individual** agents and **specific** markets

- One firm's pricing decision
- One consumer's demand for hotel nights
- Equilibrium in the Lisbon restaurant market

Macroeconomics

Studies the **economy as a whole**

- Total output of the entire Portuguese economy
- Overall unemployment rate
- The general level of prices (inflation)

AGGREGATION

is the tool that bridges the two. Macroeconomists **sum up** individual variables — millions of consumers, thousands of firms — into economy-wide totals.

Why Aggregation?

Imagine trying to manage a flight by tracking every single **air molecule** in the cabin.

Instead, pilots watch **aggregate** gauges:

 Cabin temperature

 Air pressure

 Total fuel remaining

Macroeconomics works the same way. We cannot track every transaction, so we build **aggregate indicators** that summarize the economy's health.

Individual variable	Aggregate
Your wage	Total wages in the economy
One firm's output	GDP
One hotel's prices	Overall inflation
One worker unemployed	Unemployment rate

The Macroeconomic Dashboard

MACROECONOMICS

is the study of the performance of the **national economy** and the policy measures used to improve it.

Six big questions macroeconomists ask:

 Economic growth & living standards

 Productivity

 Recessions & expansions

 Unemployment

 Inflation

 Economic interdependence of nations

Part II: The Six Main Issues



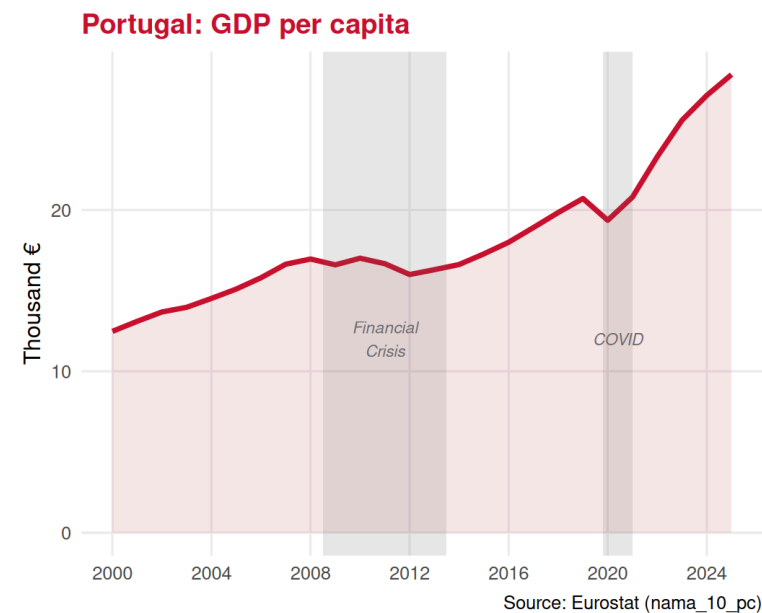
1. Economic Growth & Living Standards

Over the past century, living standards in industrialised countries have improved **dramatically**.

- Life expectancy up
- Access to health, education, technology
- Real incomes higher

Macroeconomics asks:

- Why do some countries grow faster than others?
- What drives long-run improvements in well-being?
- Can tourism-dependent economies sustain growth?



2. Productivity

LABOUR PRODUCTIVITY


= Output per worker employed

It is the **single most important** determinant of living standards in the long run.

Why does it matter for tourism?

 A hotel with better-trained staff can serve **more guests** at **higher quality**

 A tour operator using better software books more itineraries per employee

 Higher productivity → higher wages → higher living standards

What drives productivity?

 Education & training

 Technology & capital


 Better management practices

 Infrastructure (transport, broadband)

 Countries that invest in these grow **faster and richer**

3. Recessions & Expansions

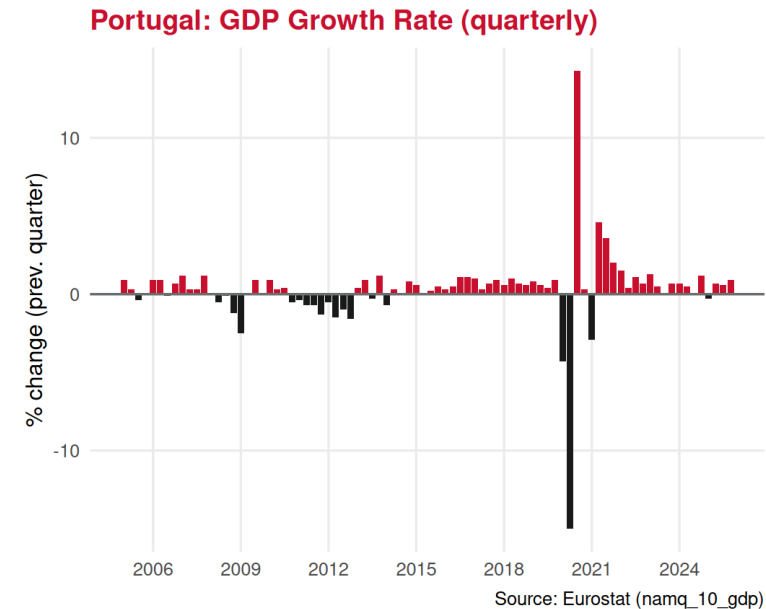
Economies do **not** grow smoothly. They experience:

Expansions  — periods of rising output & employment

Recessions  — periods of falling output (two or more consecutive quarters of negative growth)

Why does this matter for tourism?

Tourism is highly **cyclical** — one of the first sectors to suffer in recessions and one of the first to bounce back in expansions.





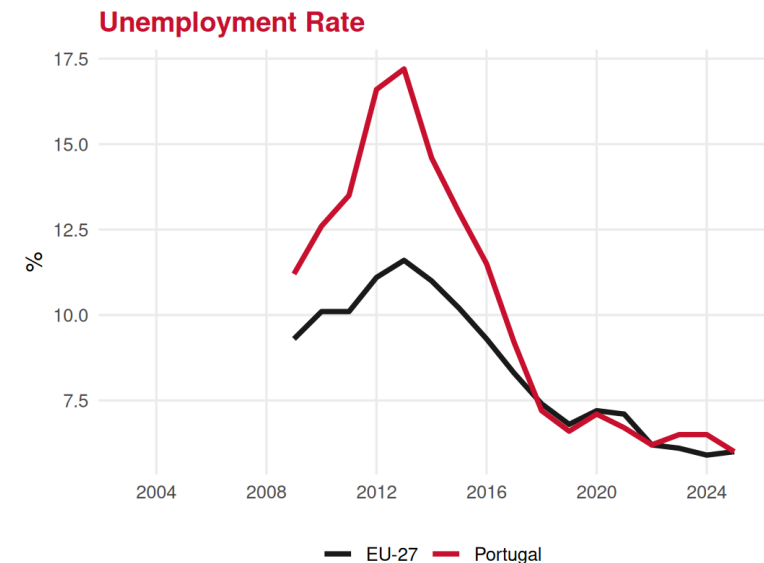
4. Unemployment

UNEMPLOYMENT RATE

= % of people who are **willing and able** to work but **cannot find a job**

Key facts:

- Unemployment rises sharply in recessions
- Even in booms, some unemployment always exists (people switching jobs, new graduates entering the market)
- Youth unemployment tends to be much higher than overall unemployment
- Tourism creates a lot of employment — but often **seasonal and precarious**



Source: Eurostat (une_rt_a)

🔥 5. Inflation

INFLATION

= the rate at which the **general level of prices** rises over time. If inflation is 3%, a basket of goods that cost €100 today will cost **€103** next year.

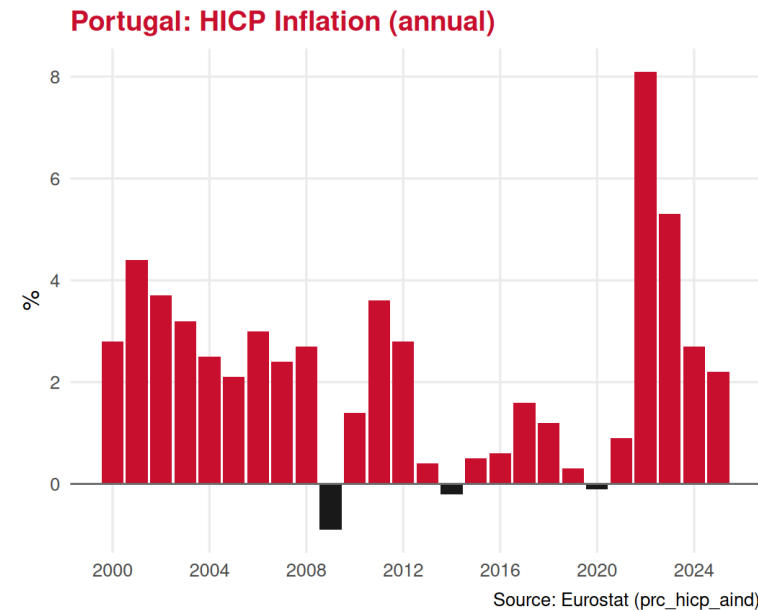
Why does it matter for tourism?

🏨 Higher hotel prices reduce the purchasing power of tourists

✈️ Flight costs affect travel decisions

💰🔄 Inflation differences between countries affect **exchange rates** and **competitiveness**

👉 Portugal's inflation relative to Germany or the UK affects how attractive it is as a destination



6. Economic Interdependence of Nations

Modern economies are **deeply interconnected**:



Trade in goods and services



International capital flows



Exchange rate fluctuations



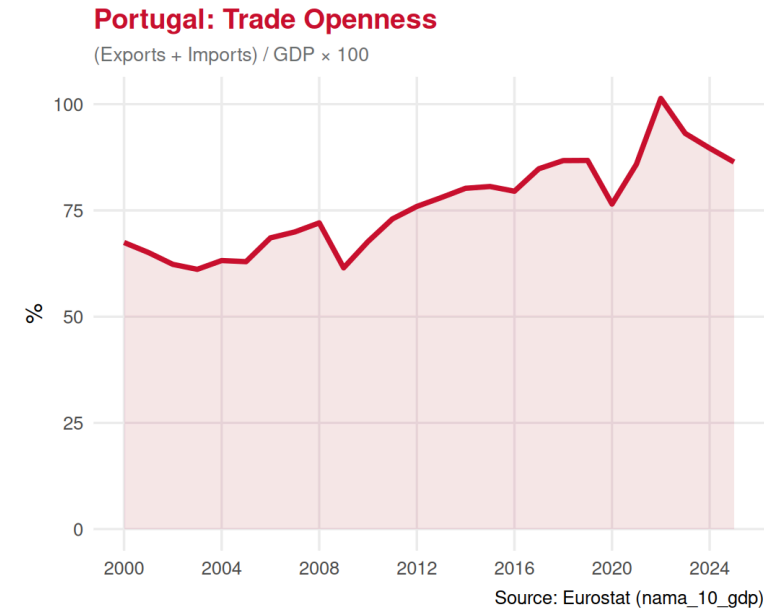
Trade agreements (EU single market, WTO)

For tourism, this is especially visible:

Portugal receives visitors from Germany, the UK, the US, Brazil — each with their own economic cycles, exchange rates, and purchasing power.



A recession in Germany directly **reduces tourism demand** in the Algarve.



Part III: The Macro Toolkit

How Do Macroeconomists Think?

Macroeconomics does not just describe problems — it tries to **explain and fix** them.

Two types of analysis:

Positive analysis

Objective study of cause and effect. “If interest rates rise, what happens to investment?”

Normative analysis

Value judgments about what *should* be done. “Should the government reduce unemployment even if it raises inflation?”


Two main policy levers:

Monetary policy

Central banks control money supply and interest rates (e.g., the ECB for Portugal)

Fiscal policy

Government controls taxes and public spending

 We will study both in detail in the coming lectures.

The Macroeconomic Policy Triangle

Policymakers juggle three goals that are often **in tension**:



Growth — increase output and living standards



Low unemployment — keep people employed



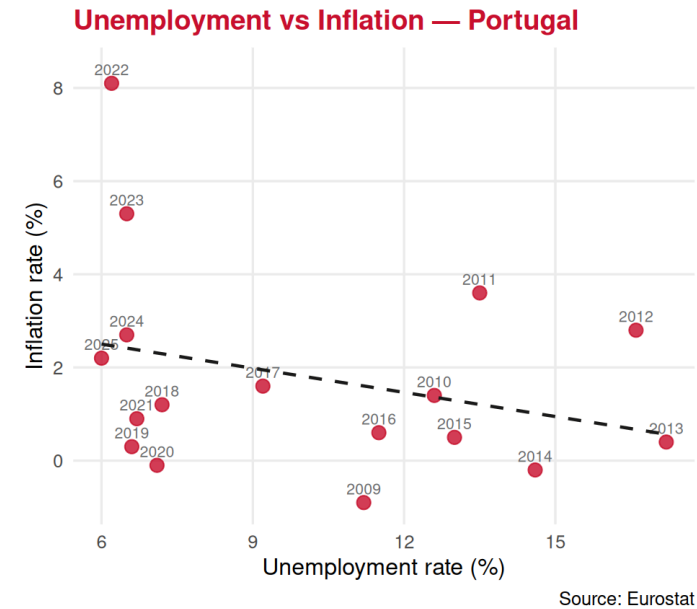
Low inflation — keep prices stable

The tension:

Policies that boost growth and cut unemployment often *raise* inflation.

Policies that reduce inflation often *slow* growth and *raise* unemployment.

👉 This is the classic **Phillips Curve** trade-off (we will revisit this).



Tourism and Macroeconomics

Macroeconomic variables directly shape tourism:



GDP Growth

When incomes rise, households spend **more** on tourism — especially international trips.

Tourism is a **normal good** with income elasticity > 1 (luxury good behaviour).



Unemployment

High unemployment \rightarrow lower household incomes \rightarrow **less discretionary spending** on travel.

Tourism jobs are often the **first real cost** of foreign travel. **cut** in downturns.



Inflation

Rising prices in destination countries reduce **price competitiveness**.

Exchange rate shifts alter the

 The 2008 financial crisis, COVID-19 in 2020, and the 2022 inflation spike all hit tourism **hard and fast** — illustrating exactly why macro matters for this industry.

The Road Ahead :map:

Over the next lectures, we will build the **macro toolkit** piece by piece:

Lecture	Topic
21	Aggregation: the concept
22	GDP: measuring total production
23	Inflation
24	Central Banks & Monetary Policy
25	Fiscal Policy
26	Balance of Payments

-  **Test 2** covers producer theory and macroeconomics — May 28th.

Exercises



Exercise 1 — Multiple Choice

Which of the following best describes macroeconomics?

- (A) The study of how an individual firm decides how much to produce
- (B) The study of the performance of the national economy and the policies used to improve it
- (C) The analysis of how a single consumer chooses between two goods given a budget constraint
- (D) The study of price formation in a single competitive market

Correct answer: (B)

Macroeconomics studies economy-wide outcomes — GDP, unemployment, inflation — and the policies that affect them. Options A, C, and D are microeconomic questions.



Exercise 2 — Multiple Choice

Portugal's unemployment rate rose sharply after 2008 and again in 2020. Which macroeconomic concept best explains why tourism revenues typically fall during such periods?

- (A) Tourism is an inferior good, so demand rises when incomes fall
- (B) Inflation is always lower during recessions, making tourism cheaper
- (C) Tourism has high income elasticity; falling incomes reduce discretionary travel spending
- (D) Monetary policy automatically increases tourism demand during downturns

Correct answer: (C).

Tourism behaves as a luxury/normal good with income elasticity > 1 . When unemployment rises and household incomes fall, discretionary spending — like holidays — is cut first. Option A is incorrect (it is a normal good), B is unrelated, and D is wrong.



Exercise 3 — Open Question

Consider the following macroeconomic context for Portugal:

A severe recession hits the Eurozone. GDP contracts by 3%, unemployment rises to 15%, and inflation falls to near zero. The British pound also depreciates 15% against the euro.

- (a) Using the macroeconomic issues covered in this lecture, identify **three** distinct channels through which this scenario affects Portugal's tourism sector.
- (b) For each channel, indicate whether the effect on tourism demand is **positive or negative**, and briefly justify.
- (c) The recession in the Eurozone is accompanied by a **strong growth period in Brazil**. How might this partially offset the effects identified in (a)?

Solution outline:

(a) Channels: (1) GDP/income of EU tourists falls → less demand from Germany, France, Spain; (2) Unemployment rises → fewer households can afford international travel; (3) GBP depreciation → UK tourists face higher real price for Portuguese holidays.

(b) (1) Negative — lower incomes reduce outbound tourism; (2) Negative — unemployed households cut discretionary travel first; (3) Negative — Portugal becomes 15% more expensive for British visitors.

(c) Brazilian GDP growth → Brazilian tourists have higher incomes and more demand for European travel. Brazil is a key source market for Portugal (language, cultural ties). Positive demand shock from non-EU markets can partially offset EU-origin declines.

Summary

Today we covered:

- ✓ The micro-macro distinction — individual markets vs economy-wide aggregates
- ✓ Aggregation as the key tool of macroeconomics
- ✓ The **six main macroeconomic issues**: growth, productivity, recessions/expansions, unemployment, inflation, and international interdependence
- ✓ The two policy levers: monetary and fiscal policy
- ✓ Why all of this matters directly for **tourism**

Next lecture (Lecture 21):

- ✚ Aggregation — the concept in depth; building up from individual transactions to economy-wide totals

Thank You! 🙌

Questions?

✉️ paulo.fagandini@ext.universidadeeuropeia.pt

Next class: Wednesday, May 7th, 2026