

Macroeconomics summary assignment

[Economics](#)



Long-Term Trend A handy way of comparing real GDP per person over time is to express it as a ratio Of some reference year. For example, in 1960, real GDP per person was \$15,850 and in 2010, it was \$42,800. So real GDP per person in 2010 was 2.7 times its 1960 level-?? that is, $\$42,800 \div \$15,850 = 2.7$. Two features of our expanding living standard are 0 The growth of potential GDP per person CLC Fluctuations Of real GDP around potential GDP The value of real GDP when all the economy's labor, capital, land, and entrepreneurial ability are fully employed is called potential GDP.

Real GDP Fluctuations-?? The Business Cycle A business cycle is a periodic but irregular up-and-down movement of total production and other measures of economic activity. Every cycle has two phases: 1. Expansion 2. Recession and two turning points: 1. Peak 2. Trough Figure 4.4 illustrates the business cycle. An expansion is a period during which real GDP increases-?? from a trough to a peak. Recession is a period decreases-?? its growth rate is negative for at least two successive quarters. The Standard of Living Across Countries Two problems arise in using real GDP to compare living standards across countries: 1 .

The real GDP of one country must be converted into the same currency units as the real GDP of the other country. 2. The goods and services in both countries must be allude at the same prices. Using the exchange rate to compare GDP in one country with GDP in another country is problematic because prices of particular products in one country may be much less or much more than in the other country. For example, using the market exchange rate to value Chinese GDP in dollars leads to an estimate that in 2010, U. S. Real GDP per person was 15 times Chinese real GDP per person.

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Limitations of Real GDP Real GDP measures the value of goods and services that are bought in markets. Some of the factors that influence the standard of living and that are not part of GDP are C] Household production C] underground economic activity L] Health and life expectancy CLC Leisure time C] Environmental quality 0 Political freedom and social justice

Employment and Unemployment Why unemployment Is a Problem

Unemployment results in 0 Lost incomes and production CLC Lost human capital The loss of income is devastating for those who bear it.

Employment benefits create a safety net but don't fully replace lost wages, and not everyone receives benefits. Prolonged unemployment permanently damages a person's job prospects by destroying human capital. 0 2012 Pearson Education Current Population Survey The U. S. Census Bureau conducts a monthly population survey to determine the status of the U. S. Labor force. The population is divided into two groups: 1 . The working-age population-?? the number of people aged 16 years and older who are not in jail, hospital, or some other institution 2.

People too young to work (under 16 years of age) or in institutional care The working-age population is divided into two groups: 1. People in the labor force 2. People not in the labor force The labor force is the sum of employed and unemployed workers. To be counted as unemployed, a person must be in one of the following three categories: 1 . Without work but has made specific efforts to find a job within the previous four weeks 2. Waiting to be called back to a job from which he or she has been laid off 3. Waiting to start a new job within 30 days Figure 5. 1 shows the labor force categories.

In June 2010: Population: 309.6 million Working-age population: 237.7 million Labor force: 153.7 million Employment: 139.1 million

Unemployment: 14.6 million Labor Market Indicators There are many labor market indicators, of which the unemployment rate is the most famous and important one. The Unemployment Rate The unemployment rate is the percentage of the labor force that is unemployed. The unemployment rate is $(\text{Number of people unemployed} / \text{labor force}) \times 100$. In June 2010, the labor force was 153.7 million and 14.6 million were unemployed, so the unemployment rate was 9.5 percent.

The unemployment rate increases in a recession and reaches its peak value after the recession ends. Unemployment and Full Employment

Unemployment can be classified into three types: L] Frictional

unemployment C] Structural unemployment C] Cyclical unemployment

Frictional Unemployment Frictional unemployment is unemployment that arises from normal labor market turnover. The creation and destruction of jobs requires that unemployed workers search for new jobs. Increases in the number of people entering and reentering the labor force and increases in unemployment benefits raise frictional unemployment.

Frictional unemployment is a permanent and healthy phenomenon of a growing economy. Structural Unemployment Structural unemployment is unemployment created by changes in technology and foreign competition that change the skills needed to perform jobs or the locations of jobs.

Structural unemployment lasts longer than frictional unemployment. Cyclical unemployment Cyclical unemployment is the higher than normal

employment at a business cycle trough and lower than normal unemployment at a business cycle peak.