

Fundamentals of macroeconomics essay

[Economics](#), [Macroeconomics](#)



Fundamentals of Macroeconomics Throughout this paper I will provide an explanation of the following terms: Gross domestic product (GAP), Real GAP, Nominal GAP, Unemployment rate, Inflation rate, and Interest rate. Within this paper I will consider purchasing of groceries, massive layoff of employees, and decrease in taxes as examples of economic activities. I will then describe how each of these activities affects government, households, and businesses as well as the flow of resources from one entity to another for each activity.

With the information that will be given throughout this paper I will begin by providing an explanation of the previous mentioned terms. Part 1 Gross domestic product (GAP) is the total value of all final goods and services produced in an economy in a one-year period. Real GAP is nominal GAP adjusted for inflation. Nominal GAP is GAP calculated at existing prices. Unemployment rate is the total number of unemployed as a fraction of the labor force. It is the percentage of people who are willing and able to work but who are not working.

It does not include the handicaps such as the blind, deaf, maimed, and children below 16 years. Inflation rate is a continual rise in the price level. Prices increase and decrease and the measure show the strength or power. Interest rate is amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets Part 2 Consider the following examples of economic activities: Purchasing of groceries Massive layoff of employees Decrease in taxes Describe how each of these activities affects government, households, and businesses.

Describe the flow of resources from one entity to another for each activity.

The United States Economy can be divided into three groups business, should, and government and they are all interconnected. Businesses, households and government interact in a market economy (Colander, 2010). Purchasing groceries is a necessary activity which has an effect on all three groups. It affects the government in several ways. One particular way is that the government regulates the taxes on groceries as well as which items can be sold and when.

For instance, the government has set rules and regulations in certain states as far as when alcohol can be sold. Purchasing groceries also affects businesses and households as these are intertwined. A business determines what is in demand so they can supply it, but this is determined by the purchases of the households. The government intercedes with this as well because the tax collected from the purchasing generates revenue in order to fund government and public projects.

By Nadia to production which ultimately causes a reduction in the purchasing of goods. Businesses are affected by the lack of production as well as a decrease consumer spending. Households are affected with massive layoffs by having to reduce their resources or having a lack of resources that they need in order to survive. Lastly massive layoffs affect government employees as well. According to McIntyre (201 1), " Layoffs among state and local government workers are the most obvious source of new unemployment.

What might be of more concern to economists is that layoffs have begun to reappear in the private sector, and that trend may grow with the economic slowdown" (Layoffs Are Back: This Time, Public Sector Will Bear the Brunt). Also, the government will be affected as they may ultimately end up paying for those laid off employees' unemployment benefits, foodstamps, medical insurance, and welfare. Lastly, decrease in taxes affects business, households, and government as well. Bass (n. D. , " Some argue that cutting taxes means more consumption and investment, while others believe that the resulting reduction in government revenues leads to higher deficits and reduced spending on important social programs. Tax cuts mean more disposable income for individuals and more retained earnings for businesses. The impact on the GAP depends on what individuals and businesses do with the extra cash. If households buy more goods and businesses increase hiring and capital equipment purchases, the GAP will increase.

A reduction in taxes also means less revenue for the government at all levels, which generally leads to lower government spending, higher deficits or both. Households are likely to buy goods and services they need the most with the savings, which would increase demand for those goods. Businesses would react to this increased demand by increasing production and hiring more people, which would generate additional consumer spending. Increased personal consumption and business investments mean higher GAP.