Fundamentals of macroeconomics

Economics, Macroeconomics

Fundamentals of Macroeconomics D. A. Torrez ECO/372 October 25, 2012 Kirk Marangi Fundamentals of Macroeconomics What is economics? Economics is the study of what people do to coordinate their want and desires through production, distribution, and consumption of goods and services (Colander, 2010). To understand economics, one has to understand the basic fundamentals of economics. Economics is based on two groups' macroeconomics and microeconomics. So what is macroeconomics? Macroeconomics is the decision-making of an economy as entire picture. In this paper I will cover the fundamentals of macroeconomics, so there is a better understanding of how economics evolves in our everyday lives. Some of the fundamentals of macroeconomics that I will cover will include Gross Domestic Product (GDP), Real GDP, Nominal GDP, Unemployment rate, Inflation rate, and Interest rate (Colander, 2010). The first subject that will be cover in macroeconomics is Gross Domestic Product (GDP). Gross Domestic Product (GDP) is the standard living of a country through its goods and services. These goods and services are produced by any given country in any given time. These goods and services are sometimes the primary source of economic stability of any given country. Real GDP is the market prices primarily on a specific year. An example would be gas prices the year of 2000. Yet we want to know how much quantities of goods and services have been purchased in 2011. One will calculate how much gas was bought in 2011 by multiplying the base year of 2000 prices. Nominal GDP is basically the ups and downs of the market value in prices from its goods and services throughout the year. One example would be gas prices in the State of California. Gas prices in the California at the beginning of 2012 were $3. 63.

As of October 15, 2012 gas prices have gone up a dollar to $4. 62 just for regular gas (California Energy Commission, 2012). Unemployment rate is the statistic of the number of people who are actively looking for a job. This rate is used by countries and states to see and understand how strong the country or state workforce is doing. A country or state measures the percentage of the civilian labor force currently unemployed (Colander, 2010) to find a state or country unemployment rate one uses the following equation to determine the unemployment rate. unemployment rate= number of people unemployednumber of people in civilian labor force The civilian labor force is to be considering simply anyone that is 16 years or older and nonmilitary personnel. Inflation rate occurs when prices keep going up and up with an end, but with no given end time. Like mention earlier gas prices have gone up. Since 1999 gas price have been on an inflation going from $1. 38 to a current rate of $4. 62 per gallon. This is proof that gas is on an inflation and it has many factor that has led to a rise in its price. Interest rate is a percentage rate is paid by the people who borrow a loan or purchase a goods, assets, and cash. Interest rates are also known as the Annual Percentage Rate (APR). When an individual buy a car for $10, 000 and has an interest rate of 5% for 36 months. So to calculate the total amount that an individual will finish paying one has to calculate the principal times the annual rate times years. total amount= P PrincipalIannual interest rateNyears $18, 000=($10, 000)(5%)(36) By the time they have finish paying off that debt they would have paid a total price of $11, 500. The interest rate is charged by lenders to make up the loss of the asset’s use (Interest Rate, 2012). As we understand some few economics terms, we will cover how some economic activities of our daily life. In this part the focus will how the purchasing of groceries, massive layoff of employees, and decrease in taxes affect the government, businesses, and households. It was once said by President Calvin Coolidge that “ The business of America is business" (Colander, 2010). For most countries its economy is broken down in to three parts: the government, households, and businesses. We will cover each one briefly and explain how each one has an affect on the other. Household are the target of a business through its goods and services. In other word we are the consumers. Consumers are what make business thrive to success. Businesses are the primary source of goods and services. Their main objective is to sell to households and a government (Colander, 2010). Finally the government, they are responsible for making business with foreign countries and makes business go global. Government also tax businesses and households. It buys its services and goods from a business and buys labor from households (Colander, 2010). Each of these three parts always has interaction with one another. These help built an economy. So the purchasing of groceries by the consumers or households, help the farmers whose business is to produce the goods. The government uses the goods to export to other countries. At the same time the government put regulations on how the goods need to be produce. To keep these regulations intact and to be obeyed the government establishes the Department of Agriculture. When there is massive layoff of employees it is considers by the government when 50 or more workers from a business (U. S. Department of Labor, 2012). These mass layoffs affect households by not bringing a stable paycheck. In which effect the government as they, have to step up and help these household by giving them financial help such as unemployment compensation, welfare, and food stamps. Many businesses go through massive layoffs because of losing business, no need for specific department within the business. Business sometimes consider this a temporary phase that they go through. So when there is a decrease in taxes it is consider increasing government revenues (Do tax cuts increase revenue, n. d.). By doing this government will increase the workforce by increasing the goods and services from a business. This will strive the workforce increase the employment hiring process and decline the unemployment rate. As the unemployment rates falls the household will secure a paycheck. So revenues are up due to a decrease of taxes also helps the government in spending more. This stimulates growth in the business sector of the economy. (Do tax cuts increase revenue, n. d.) Since 1965 they have been some act in which have decrease taxes to increase revenues. The first one was established during the Reagan administration it was called " The Economic Recovery Tax Act of 1981" (Economic Recovery Tax Act of 1981). In this act it help reduce taxes and increase revenues for households and gave business the strive they were looking for success. Since then they have been many acts to reduce taxes and revenues. We cover the fundamentals of economics and how they are broken into two subjects of macroeconomics and microeconomics. Also it was explained some basic terminology of macroeconomics. Finally we cover how the economy is seen interconnected through household, business, and government. References California Energy Commission. (2012, Oct 15). California Gasoline Statistics & Data. Retrieved from http://energyalmanac. ca. gov/gasoline Colander, D. C. (2010).

Macroeconomics (8th ed.). Boston, MA: McGraw-Hill/Irwin. Do tax cuts increase revenue. (n. d.). Retrieved from http://www. rrickets. ba. ttu. edu/taxratesandrevenues. htm Economic Recovery Tax Act of 1981. (1981, Dec 29). Retrieved from http://www. jct. gov/publications. html U. S. Department of Labor. (2012, September 21). Mass Layoffs Summary. Retrieved from http://www. bls. gov/news. release/mmls. nr0. html Interest Rate. (2012, Summer). Retrieved from http://www. investopedia. com/term/i/interestrate. asp