

# [Macroeconomics notes assignment](https://assignbuster.com/macroeconomics-notes-assignment/)

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Unemployment rate: number of unemployed people expressed as a percentage of all the people who have Jobs or are looking for one Why is this not a perfect measure? . Excludes discouraged workers 2. Measures unemployed individuals rather than unemployed labor hours Why is unemployment a problem? 1. Lost production and income (underestimation of resources) 2. Lost human capital (reduces individual’s Job prospects) Inflation Price level: average of the prices that people pay for the goods and services they buy o Usually measured by the Consumer Price Index Inflation rate: annual percentage change in the price level Why is inflation a problem? 1.

Redistributes income and wealth: some people gain and others lose depending on the real value of wealth (which is affected by inflation) 2. Diverts resources from production: becomes more profitable to forecast the inflation rate correctly than to invent a new product Surpluses, Deficits and Debts Government budget surplus: T > G Government budget deficit: G > T The Classical and Keynesian Views Classical view: the only economic role for gobo is to enforce property rights (Smith) o Leaves individuals tree to pursue their own sell interests o Any attempt by g improve macroeconomic performance will not succeed. Ђ Keynesian view: economy behaves poorly if left alone thus gobo action is needed to achieve and maintain full employment Types of Policy Available 1) Fiscal policy: changes in tax rates and government spending programmer

National Income and Production Accounts divides income into 5 categories: compensation of employees; net interest; rental income; dividends; operating surplus Real v Nominal GAP Real GAP: value of final goods and services produced in a given year when valued at constant prices o Constant prices taken from the base year 0 Nominal GAP: value of final goods and services produced in a given year when valued at that year’s current prices A differential change in nominal and real GAP over some time period implies that prices over that period must have changed. Ђ Implicit deflator = (GAP at current prices) / (GAP at base-period prices) x 1 GAP adulator = (Nominal G GAP) x 100% Distinguishing between ‘ nominal’ and ‘ real’ values Nominal: actual money values at a given point in time I. E. Current prices’ o Shows changes in production and price Real: accounts for changes in price (I. E. Inflation) and makes use of ‘ base-period prices’ o Accounts only for changes in production Calculating GAP Growth Rates Real GAP growth rate = (Kept – Kept-1)/Kept-1 x 100% Sustained Growth & Applying the Rule of 70 0 Economic growth behaves like compound interest.

This means that sustained growth of real GAP/capita can transform a poor society into a wealthy one. 0 Rule of 70: #years for Real GAP to double = 70/g% where g%: growth rate of country Components missing from GAP Economic ‘ beads’ Non-market activities Unreported activities The Complete Circular Flow (Ensure that you know the diagram for this concept. Withdrawals: resources leaving the system o Imports + savings + taxes Injections: resources entering the system o Exports + investments + government spending Prices in the National Accounts GAP at market prices (price paid by consumers) – taxes on products + subsidies on products = GAP at basic prices (price received by producers) – taxes on production + subsidies on production = GAP at factor cost (price received by factors of production) Chapter 19: Monitoring Jobs and the Price Level

The Anatomy of Unemployment 0 People become unemployed if they: o Lose their Jobs and search for another Job o Leave their Jobs and search for another Job o Enter or re-enter the labor force to search for a Job 0 People end a spell of unemployment if they: o Are hired or recalled o Withdraw from the labor force Three major measures of unemployment 1. Unemployment rate: indicates extent to which people who want Jobs can’t find them 2. Labor force participation rate: indicates willingness of people to take Jobs