

Macroeconomics notes assignment

[Economics](#)



**ASSIGN
BUSTER**

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 govt is to enforce property rights (Smith) o Leaves individuals free to pursue their own self interests o Any attempt by govt to improve macroeconomic performance will not succeed. Keynesian view: economy behaves poorly if left alone thus govt action is needed to achieve and maintain full employment Types of Policy Available 1) Fiscal policy: changes in tax rates and government spending programmes

National Income and Production Accounts divides income into 5 categories: compensation of employees; net interest; rental income; dividends; operating surplus Real v Nominal GDP Real GDP: value of final goods and

services produced in a given year when valued at constant prices

- o Constant prices taken from the base year
- o 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.

\uparrow Implicit deflator = $(\text{GAP at current prices}) / (\text{GAP at base-period prices}) \times 100$

GAP deflator = $(\text{Nominal GAP} / \text{Real GAP}) \times 100$

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 = $(\text{Kept} - \text{Kept-1}) / \text{Kept-1} \times 100\%$

Sustained Growth & Applying the Rule of 70

Economic growth behaves like compound interest.

This means that sustained growth of real GAP/capita can transform a poor society into a wealthy one.

o Rule of 70: #years for Real GAP to double = $70/g\%$ where $g\%$: growth rate of country

Components missing from GAP

Economic 'leakages'

- 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