Fundamentals of macroeconomics assignment

Economics

Fundamentals of Macroeconomics Week two objectives analyze the impact of various factors on aggregate demand and supply; in addition to evaluating the effectiveness of changes in fiscal policies using Keynesian and Classical models. This paper will explain the following terms: gross domestic product (GAP), real GAP, nominal GAP, unemployment rate, inflation rate, and interest rate. As well as describing the effects of purchasing of groceries, massive layoff of employees, and decrease in taxes have on the government, households, and businesses.

The flow of resources from one entity to another for the economic activities listed above will also be explained. The most commonly used indicator of economic health of a nation is the GAP. GAP is the monetary value of goods and services produced in a nation during a specific period. The calculation of GAP is most often done on a yearly basis. Many may argue that GAP does not take into consideration the alternative economy; other thinks Gaps purpose it is not to gauge material health, but to measure of a nation's productivity. There is a distinct difference between nominal GAP and real GAP.

Real GAP take into account changes in price level and provides a more precise amount. Real GAP is an inflation-adjusted measure which reflects the value of all goods and services produced in a year's time. For instance, if in 2008, the nominal GAP is $200 billion but because the level of prices increased between 2004 and 2008, the real GAP is really $170 billion. The formula below is used to calculate real GAP. Real GAP Nominal GAP XIII GAP Deflator GAP is made up of all the exports, services, and goods produced in a nation minus any imports. Nominal GAP is the total economic value of products produced within a nation during a specific time.

However, unlike real GAP, nominal GAP does not adjust o reflect the increases or decreases of price level. Nominal GAP can be slightly misleading because when inflation is not included in the GAP amount, it appears higher than it really is. Another contributing factor of GAP is the unemployment rate. Unemployment rate is the proportion of a population whom is able and actively seeking employment but unable to find work. When the economy is growing or expanding the unemployment rate usually drops; however when the economy is in a recession unemployment rises.

For example, since 2005 the unemployment rate in Lass Vegas, NV, has range from 3. % in May 2006 to 15. 1 % in July 2010. As of June 2013 the unemployment rate for Lass Vegas, NV, was recorded as 10. 4 percent (Homeopath, 2013). Although the rates have decreased since the last recorded rate of 15. 1 %, we are still in a recession. However, because of the long-term downturn in economic activity in more than one economy there may be a possibility of an economic depression ahead. Inflation rates is another factor that contributes to the GAP. Inflation rates is the increase in prices and the lack of means to purchase products.

In most case if not all s inflation increase every dollar will purchase a smaller percentage of a good. For instance, it the initiation rate is 2 %, than a 00 bag to chips will cost S According to inflationary. Com the current inflation rate as of July 2013 is 1. 96 % an increase of . 21 % from June 2013 recorded rate of 1. 75 % (McMahon, 2013). Interest rate is an amount charged by a lender to a borrower for the use of assets. When a buyer purchases a home, an annual percentage rate (PAR) is added to the amount. Buyers with low-risk is usually charged a low interest rate.

However if the rye is considered high risk the interest rate is higher. Now that you have a better understanding of some of the contributing factors of GAP; let’s address how each economic activity affects government, households, and business. Beginning with purchasing groceries effects on a households. The effect depends on the size of the family and the amount of groceries needed. A large family means a large grocery bill. As with groceries and most everything else taxes must be paid when making a purchase. The higher the taxes are the less food families buy which effects both the government and businesses.

If consumers are not spending, the stores sales go down, the suppliers lose too because the stores are ordering less product, which could cause businesses to shut down or layoff employees. Massive layoffs has a huge effect on households. During massive layoffs families are affected directly and almost immediately. The loss of employment can cause a family to lose their home, car, sanity and will to move forward. This affects the government because unemployment benefits has will have to be paid out as well as providing health coverage and food assistance to those families in need.

Business re also affected because without sufficient employees the business is unable to run efficiently. Decrease in taxes is something we would all love to see happen. If there is a decrease in taxes families are likely to spend more money. The government would retain more capital as well as business. When more money is being spent, more Jobs become available; and the economy is more likely to expand. Buying groceries has many effects on the economy. For the government when consumers buy more groceries the more taxes goes into the government.

If consumers buy less; the less taxes go toward the government. This means the lack of buying groceries affects more than a few. When families make more money, they usually eat expensive meals which leads to more taxes and money spent at the grocery store. The number of people buying food at local grocery stores can make or break the business. In hard economic times several stores has closed because the lack of support do to lack of money in households. The effect of massive layoffs effects all ends of the spectrum from business, households, and the government.

Households are the most directly affected from a layoff because it changes the emails income dramatically; going from two incomes to one or no income at all. Businesses also hurt from a massive layoffs in some areas. Simply because consumers who would normally shop no longer have the extra money to spend on products that are not a necessity. Local businesses are the ones who take the big hit; like the Mom and Pop shops. These business suffer more than a retailer like Target or Walter because their prices are normally higher. Because of this statement; local businesses are more likely to be Jeopardy of losing capital or even shutting down.