

# Review intermediate macroecon

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How do we measure standard of living Measuring the standard of living in a country is to use real national income per capita. This is found that dividing real national income (GAP or GNP) by the total population. 2. How can European unemployment be reduced? Central bank should decrease interest rates, and allow for an increase in demand, and unemployment would decrease. They need to be less protective, to eliminate these labor market rigidities, and to adopt US style labor market institutions 3. What are the benefits of the Euro?

No more changes in the relative price of currencies for European firms to worry about, no more need to change currencies when crossing borders. 4. What has contributed to the high economic growth of China? A. The first is high accumulation of capital. The Investment rate exceeds 40% of output, a high number. Compared to US which is 17%. More capital means higher productivity and higher output. B. The second is rapid technological progress. By making Chinese firms work with and learn from foreign firms, the productivity of the Chinese firms has increase dramatically. Chapter 2 1.

What is GAP, value added approach A measure of aggregate output in the national income accounts (The market value of goods and services produced by labor and property located in the US) VALUE ADDED: Sales - Intermediate goods Intermediate GOOD: is a good used in production of another good. Some goods can be both final goods and intermediate goods. (EX: Final: Potatoes sold directly to consumers/ Intermediate: Potatoes used to produce potato chips) 2. Nominal and Real GAP Nominal: sum of quantities of final goods produced times their current price. Nominal GAP increases over time for 2 reasons: a.

Production of most goods increase ever time. B. Prices of most goods also increase over time. Real: Sum of quantities of final goods times constant (rather than current prices) 3. GAP Deflator: the ratio of nominal GAP to real GAP in year t ICP: The cost of a given list of goods and services consumed by a typical urban dweller Inflation: A sustained rise in the general level of prices Inflation rate: The rate at which the price level increase over time. 4. Labor Force and Discourage workers Labor Force: The sum of those employed and those unemployed Discourage Workers: A person who has given up looking for employment. . Unemployment rate and Labor force participation rate Unemployment rate: The ratio of the number of unemployed to the labor force Labor Force Participation rate: The ratio of the labor force to the total population of working age (non-institutional civilian population) Chapter 3 1. MAC, multiplier (CLC): The effect on consumption of an additional dollar of disposable income 2. Consumption function A function that relates consumption to its determinants 3. Determination of output in Goods Market 4. Keynesian cross 5. What shifts the Z line 6. Determinants of Investment 7. Shifts of the IS curve