MACROECONOMICS

Macroeconomics: the branch of economics that ____,

including employment, gross domestic product, inflation, economic growth and the distribution of income.

Countries want ________________________________ because it means the economy is moving in the right direction. Steady **economic growth** is usually associated with things like:

- entrepreneurs starting _____________________________________
- firms becoming more productive by ____
- workers becoming more productive through ____
- productive resources being ____ for the economy

Price stability refers to ____ over time so that a country's money will retain its purchasing power over time.

Countries want ______________________________ so individual, firms, and governments can correctly predict how much the money they have now will buy in the future.

Full employment refers to the state of the economy when virtually all who are ______________________ ____ to do so.

Countries want full employment because of the ________________________ of the economy. The income people receive from working ____ and pay taxes.

Gross Domestic Product: the dollar value of ____ produced within the nation's borders in one year.

GDP excludes certain items:

1. Intermediate Goods: products used ____________________________________. These require further processing before being sold to the final consumer.

2. **Secondhand Sales**: sales of ___________________________.

3. **Nonmarket Transactions**: ____ such as mowing your own yard, house cleaning or other home improvements.

4. **Underground Economy**: unreported legal and _____________________________________.

5. **Financial Transactions**: money paid for ____.

UNIT 4 - MACROECONOMICS

_______________________________________NAME

Output-Expenditure Model: a macro model used to show _________________________________ by consumers, businesses, government and the foreign sector.

Aggregate Demand = ____.

C = ______________________________________ by households accounts for the largest part of GDP

I = ______________________________________ by businesses

G = ______________________________________ at the federal, state and local level

X = ________________ which are goods sold abroad

M = ________________ which are goods purchased from abroad

____

If (X—M) is positive, we have a __________________________ meaning we export more than we import.

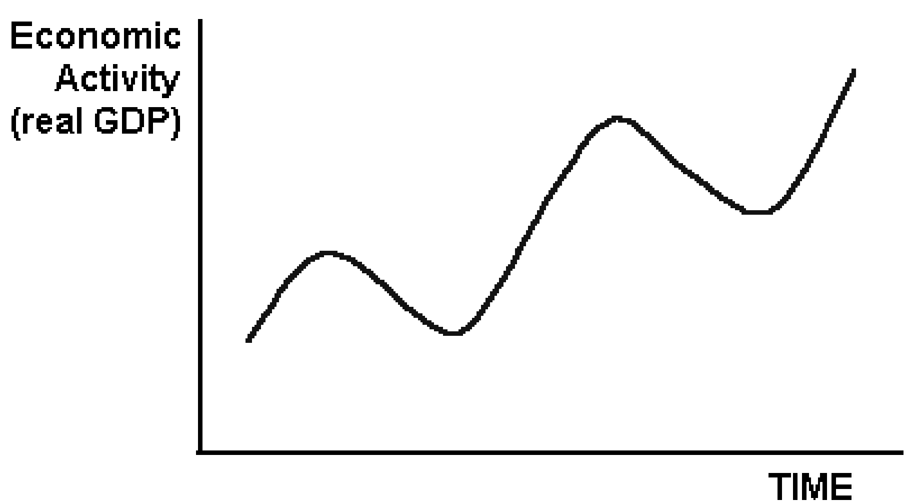
If (X—M) is negative, we have a __________________________ meaning we import more than we export. (This is what the U.S. has year after year.)

THE BUSINESS CYCLE

Business Cycle: the ____ of gross domestic product (GDP).

Phases include

1. **Peak**: the turnaround point where real GDP ___________________________________.
2. **Trough**: the turnaround point where real GDP ___________________________________.
3. **Recession**: a period during which real GDP ____.
4. **Expansion/Recovery**: a period of ____ where real GDP is ___________.



Trend Line: shows the _________________________ in real GDP. It's a process of

____ and _____________________________.

Depression: a state of the economy with ____,

acute _________________________ and excess capacity in manufacturing plants.

UNEMPLOYMENT RATE

Unemployment Rate: the number of _________________________________ divided by the total number of persons in the civilian labor force.

$$UR = \frac{\text{\# unemployed but looking}}{\text{civilian labor force}} \times 100 = \%$$

Civilian Labor Force: those __________________________ who are currently _____________________

Criticisms of the Unemployment Rate

1. **Discouraged Workers**: people who have become frustrated with looking for a job and ___________. This tends to ____ of unemployment.
2. **Part time Workers**: these workers are __________________________________ as full time workers. Again, this tends to understate the true rate of unemployment. If the official UR is say 9.8%, when we add in both discouraged workers and part time workers the actual UR may be closer to 16% or 17%.

Kinds of Unemployment

1. **Frictional Unemployment**: workers who are _________________________________ for one reason or another. Also called search and wait unemployment.
2. **Structural Unemployment**: this is unemployment caused when a fundamental change in the economy ____. This if often caused by changes in technology, called automation.
3. **Cyclical Unemployment**: this is unemployment related to __________________________________, caused by a recession.
4. **Seasonal Unemployment**: unemployment resulting from ___________________________________ or changes in the demand for certain products ____.

Full Employment: the lowest possible unemployment rate with the _____________________________ and all factors of production ____.

Our estimate is ____.

The first 4.5% represents ____.

Anything over and above that is cyclical.

Inflation: ____.

To remove distortions of inflation on GDP, economists must construct a price index.

1. **Consumer Price Index (CPI)**: reports on price changes for _____________________________________ ____________________________ used by a typical household.
   - It is used ____ in the economy.

Base Year: a year that serves as the basis of comparison for all other years.

Market Basket: a representative selection of ____ ____________________________ used by an urban consumer.

Nominal GDP: is GDP that ____________________________________ for inflation.

Real GDP: is GDP that _______________________________________ for inflation.

To go from Nominal GDP to Real GDP you use the following formula.

$$\text{Real GDP} = \text{Current GDP} \div \text{Price index} \times 100.$$

There are 2 ways to measure economic growth. Remember economic growth is the ability to produce ____.

1. Changes in real GDP from 1 year to the next.
2. Changes in real GDP per capita which is ____.

We want to keep the inflation rate between 1-3%.

Deflation: a ____________________ in the general/average price level as measured by an index number.

The immediate result of inflation is a decrease in the _______________________________ of the dollar.

2 Types of Inflation

1. **Demand-pull Inflation**: when different groups such as consumers, businesses or the government attempt to spend beyond what the economy can produce. “Too many dollars chasing too few goods.”
2. **Cost-push Inflation**: ____, they will raise prices to compensate for higher costs. This could come primarily from wages or energy/oil prices.

Inflation also causes a redistribution of income from some people to others. Some will benefit from inflation while others will be hurt.

Winners	Losers