Review Notes – Introduction to Macroeconomics

- What is Macroeconomics?
  - Definition.
  - What variables are important in Macroeconomics?
    - Gross Domestic Product
    - Inflation
    - Unemployment
  - Use of the scientific method.

- The Data of Macroeconomics
- How do we measure GDP?
  - Income approach vs. Expenditures approach
    - What are final goods and services produced?
    - What are intermediate goods and services produced?
    - What is value added?
    - What about the resale of used goods?
    - Inventories?
    - Imputed Values
      - Method of estimating the value of a good if it does not go through a market and has no market value.
      - Are such estimations always done?
    - Real vs. nominal GDP
      - Definitions for both
      - How is the impact of prices subtracted from real GDP?
        - Define GDP deflator
        - What is a chain-weighted price index? How does it differ from examples calculated in class?
  - The components of expenditures in GDP
    - GDP = C + I + G + NX
      - Consumption (C)
        - definition
        - what is included?
      - Investment (I)
        - definition
        - what is included?
      - Government purchases (G)
        - what is included?
      - Net Exports (NX)
        - Exports (X)
• Imports (M)
  o \( NX = X - M \)

• What is GNP and how does it compare to GDP?
  o \( GNP = GDP + \text{factor payments from abroad} - \text{factor payments to abroad} \)
  o How much actual difference is there between GNP and GDP?

• Other items in the national income accounting system
  o \( NNP = GNP - \text{depreciation} \)
  o National Income = \( NNP - \text{indirect business taxes (what are those?)} \)
    ▪ Define National Income (hint: what is another way to calculate national income?)
  o National Income
    – corporate profits
    – social insurance contributions
    – net insurance
    + dividends
    + transfer payments
    + personal interest income
    = Personal Income
  o Personal Income
    – Personal taxes
    – non-tax payments
    = Disposable Personal Income \( (Y_D) \)

• The Consumer Price Index
  • How does the CPI differ from the GDP deflator? (Hint: we discussed three ways.)
  • Which is the best method of calculating changes in prices?
  • How about the Producer Price Index \( (PPI) \)?
  • Problems with both the CPI and the GDP?
  • How similar are these two measures?

• Unemployment
  • Who are the employed?
  • Who are the unemployed?
  • What is the Labor Force?
  • What are labor force participation rates?
  • What are unemployment rates?