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

            o What are <u>final</u> goods and services produced?
            o What are intermediate goods and services produced?
            o What is value added?
            o What about the resale of used goods?
            o Inventories?
            o 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?

            o 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?

            o The components of expenditures in GDP

                - GDP = C + I + G + NX

                    - Consumption (C)
                        o definition
                        o what is included?

                    - Investment (I)
                        o definition
                        o what is included?

                    - Government purchases (G)
                        o what is included?

                    - Net Exports (NX)
                        o Exports (X)

- o Imports (M)
- o NX = X – M

- What is GNP and how does it compare to GDP?

  - o GNP = GDP + factor payments from abroad – 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 – depreciation

  - o National Income = NNP – 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 GDPD?

  - 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?