Macroeconomics

SSEMA1: The student will illustrate the means by which economic activity is measured.

b. Define Gross Domestic Product (GDP), economic growth, unemployment, Consumer Price Index (CPI), inflation, stagflation, and aggregate supply and aggregate demand.

- Macroeconomics: the study of the behavior and the decision making of entire economies
- Gross Domestic Product (GDP)
  - G—total
  - D—produced anywhere in 50 states by anyone
  - P—final goods and services
  - What does it measure?
    - Total amount of final goods and services produced in a country in one year.
    - It's a measure of output

Gross Domestic Product

- Given as a dollar amount
- Formula: GDP = C + I + G + (X-M)
  - C = consumption spending (consumers)
  - I = investment spending (businesses investing)
  - G = government spending
  - (X-M) = difference between exports and imports

Gross Domestic Product

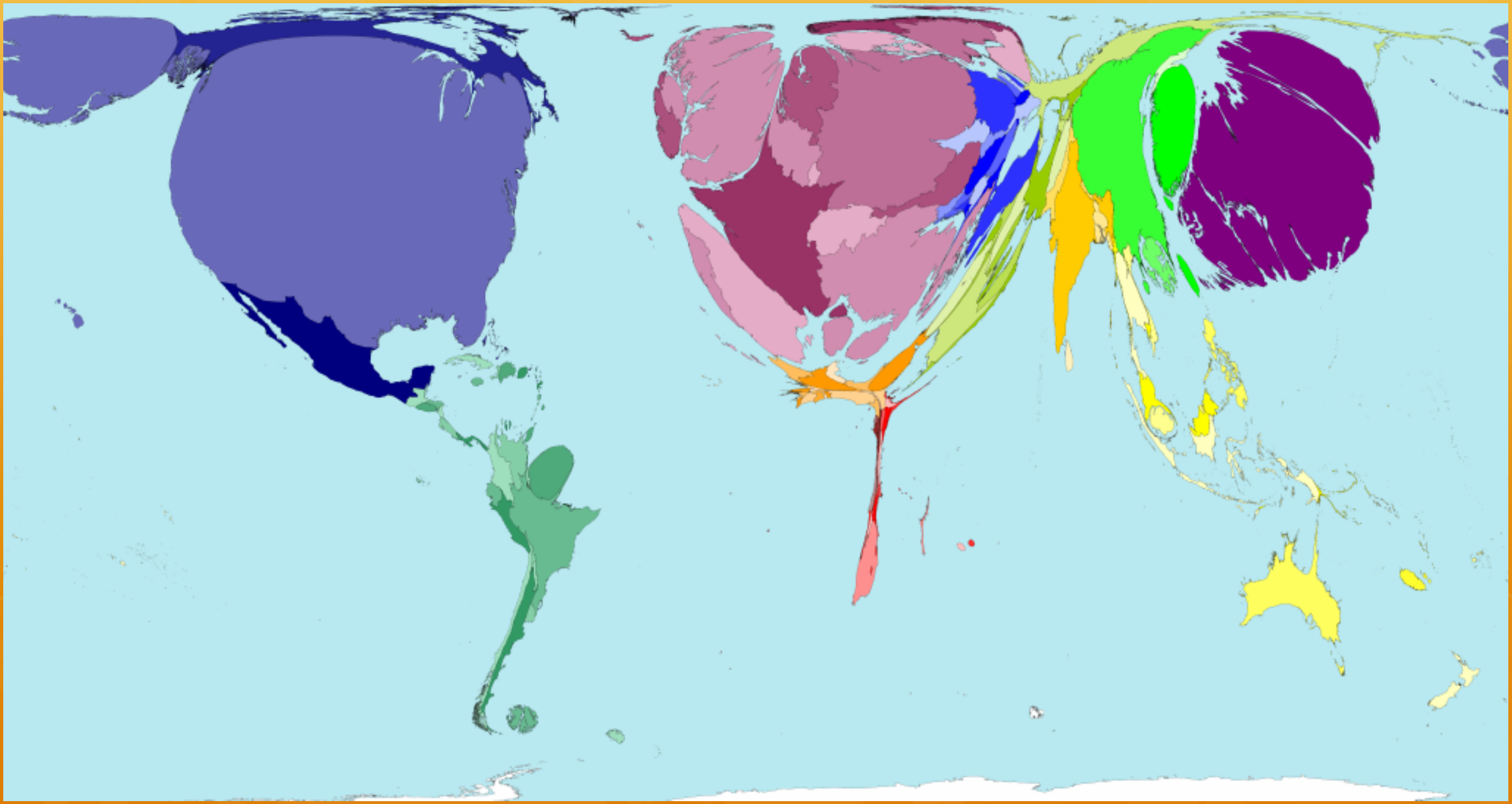
- What is counted in GDP?
  - FINAL goods and services
  - Produced in US even if foreign company
- What is not counted in GDP?
  - Things produced outside the country (even if US company)
  - Illegal stuff (black market, illegal gambling)
  - Purely financial transactions
  - Intermediate goods
    - Examples: lumber, steel, cattle, etc.

Economic Growth

- Economic growth is measured by finding real GDP per capita (real GDP divided by the total population)
- Real GDP per capita is considered the best measure of a nation's standard of living
- Basic measure of a nation's economic growth rate is the percentage change of real GDP over a given period of time

Per Capita GDP

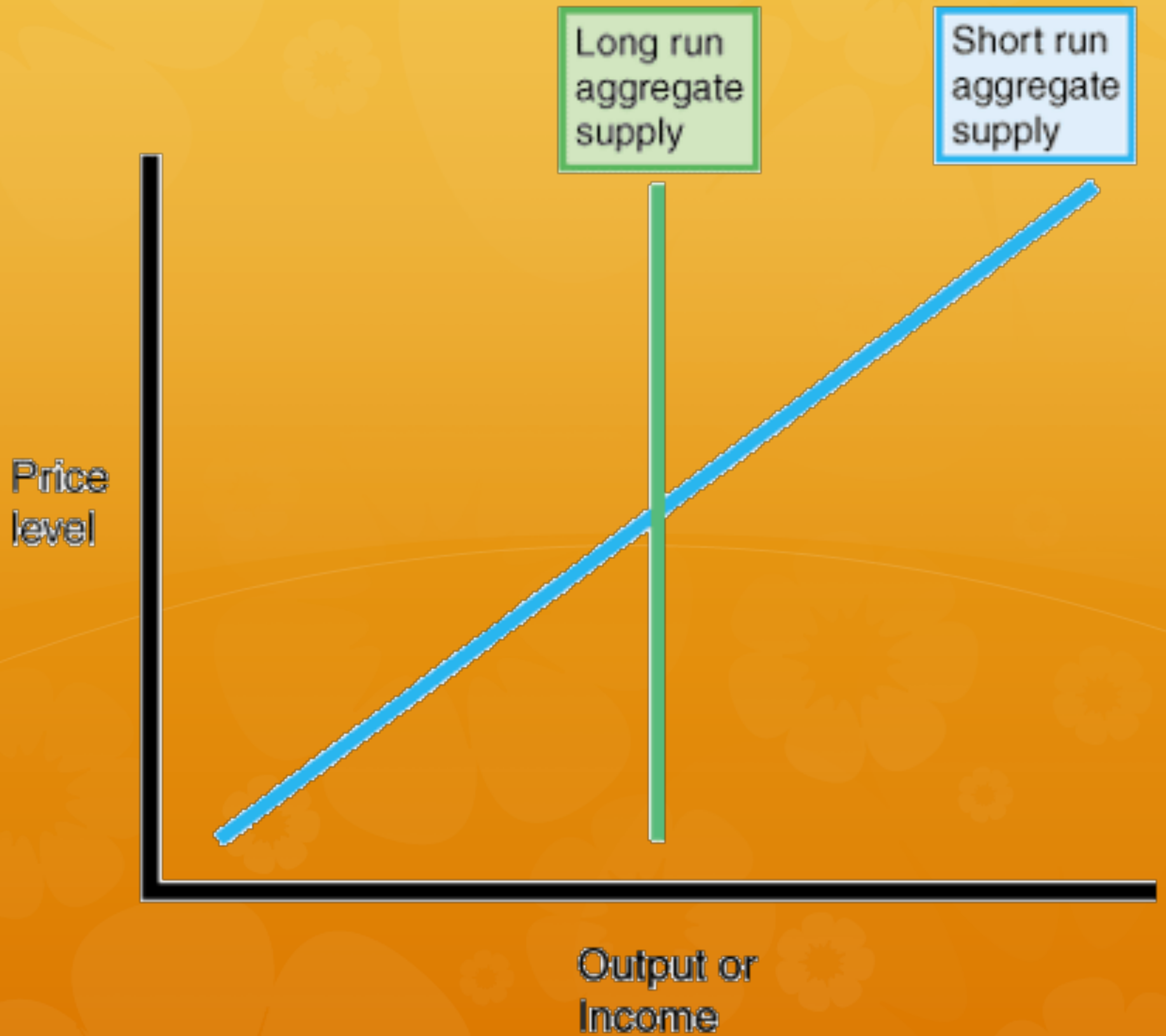
- GDP divided by a country's population



Aggregate Supply

- Aggregate supply: the total amount of goods and services in the economy available at all possible price levels
- As the prices of most goods and services change, the price level changes
- Firms respond by changing their output (real GDP)
  - Prices rise—production increases
  - Prices fall—production deacreases

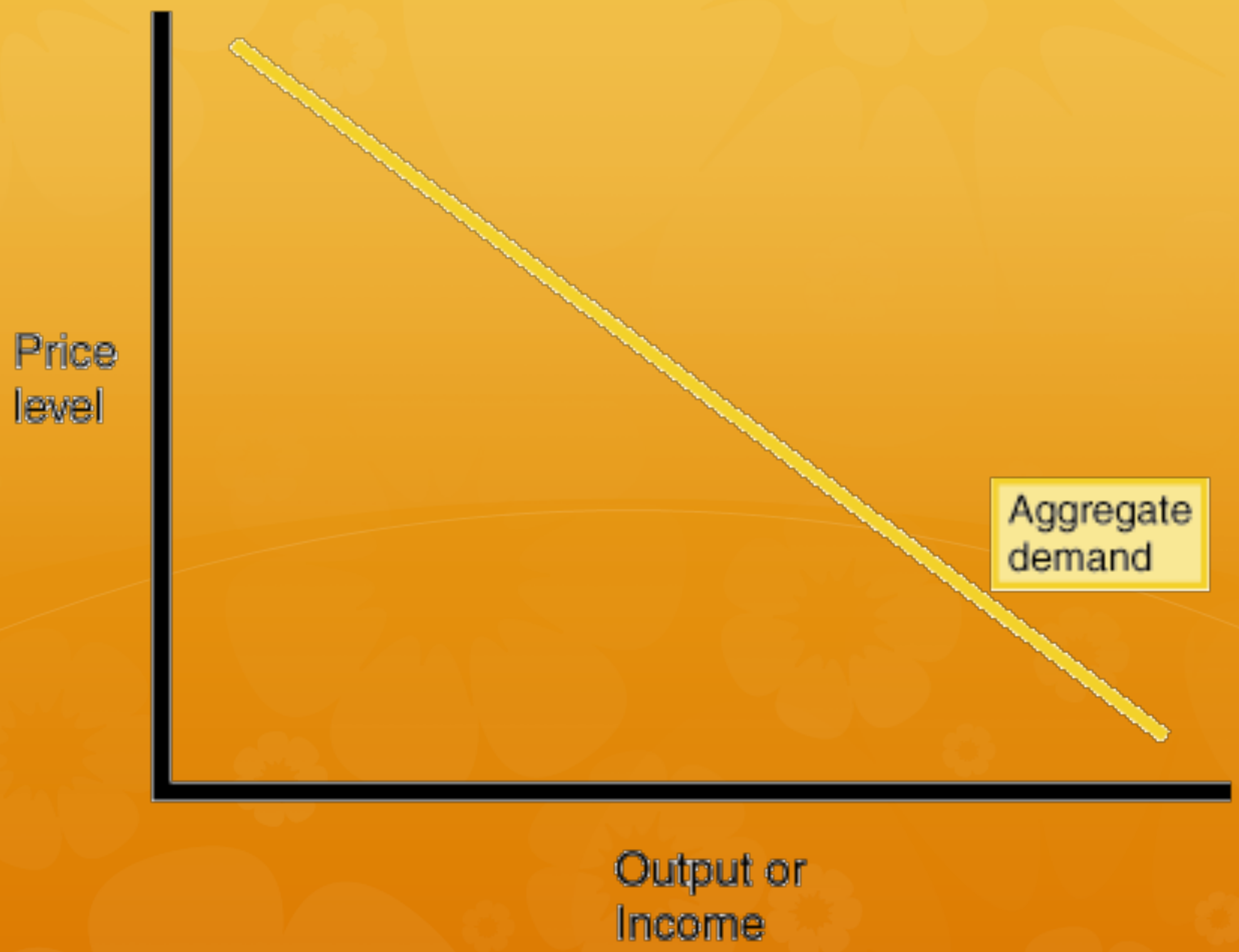
Aggregate Supply



Aggregate Demand

- Aggregate demand: the amount of goods and services in the economy that will be purchased at all possible price levels
  - Lower price levels means greater purchasing power for households; falling prices increase wealth and demand
  - Higher price levels cause purchasing power to decline; reduction in the quantity of goods and services demanded

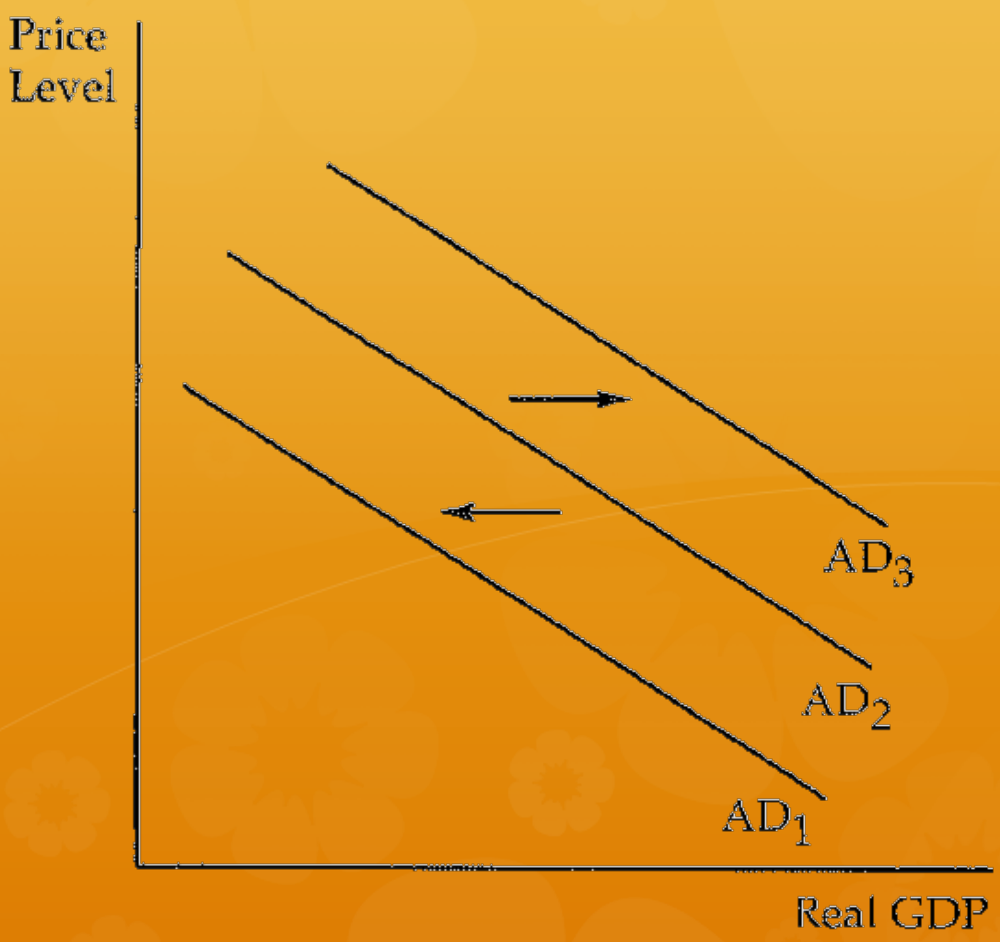
Aggregate Demand



Aggregate Demand and Aggregate Supply

- Factors that shift an AD curve:
  - Changes in
    - Consumer spending
    - Investment spending
    - Gov't spending
    - Net export spending
  - Increases in AD increase real GDP and price level
  - Decreases in AD decrease real GDP and price level

Aggregate Demand and Aggregate Supply



1. What factors can cause the AD curve to shift to the right or increase?
2. What factors can cause the AD curve to shift to the left or decrease?

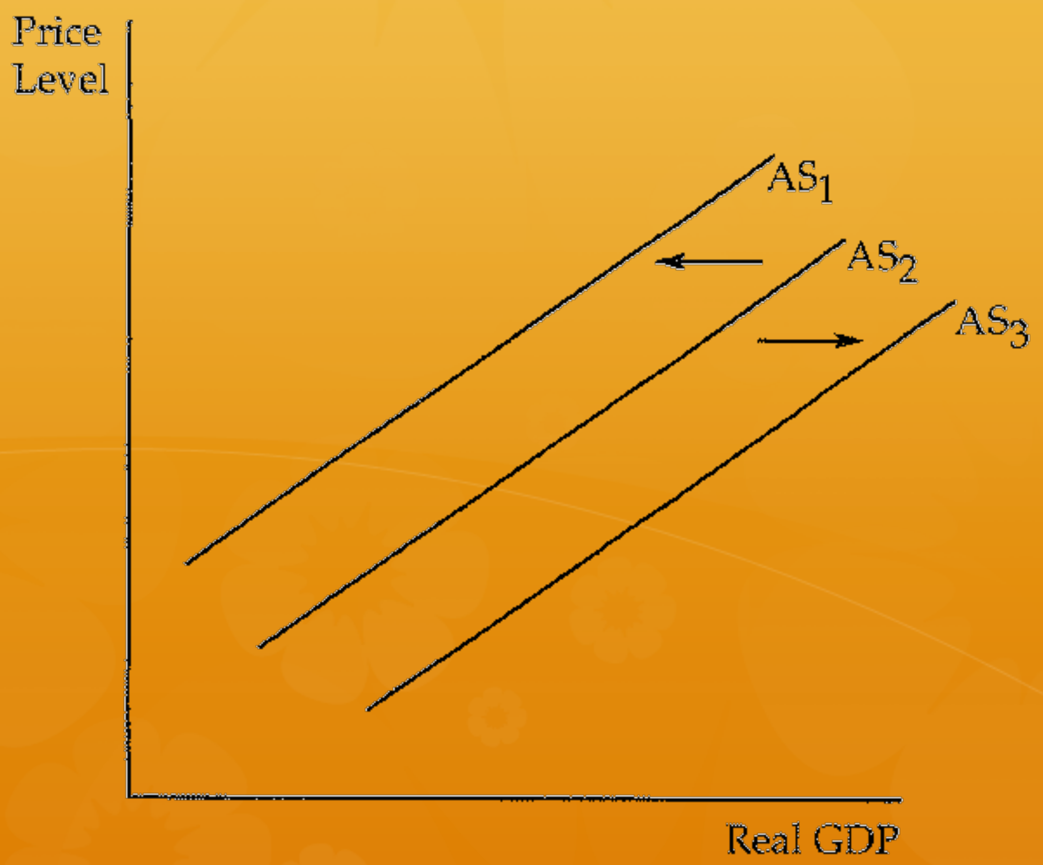
Aggregate Demand and Aggregate Supply

- Factors that shift an AS curve
  - Changes in:
    - The prices of inputs (factors of production)
    - Productivity
    - Technology
    - Gov't regulations
  - Increases in AS increase real GDP and lower the price level
  - Decreases in AS decrease real GDP and raise the price level

Aggregate Demand and Aggregate Supply

1. What factors can cause the AS curve to shift to the right or increase?

2. What factors can cause the AS curve to shift to the left or decrease?



Aggregate Demand and Aggregate Supply

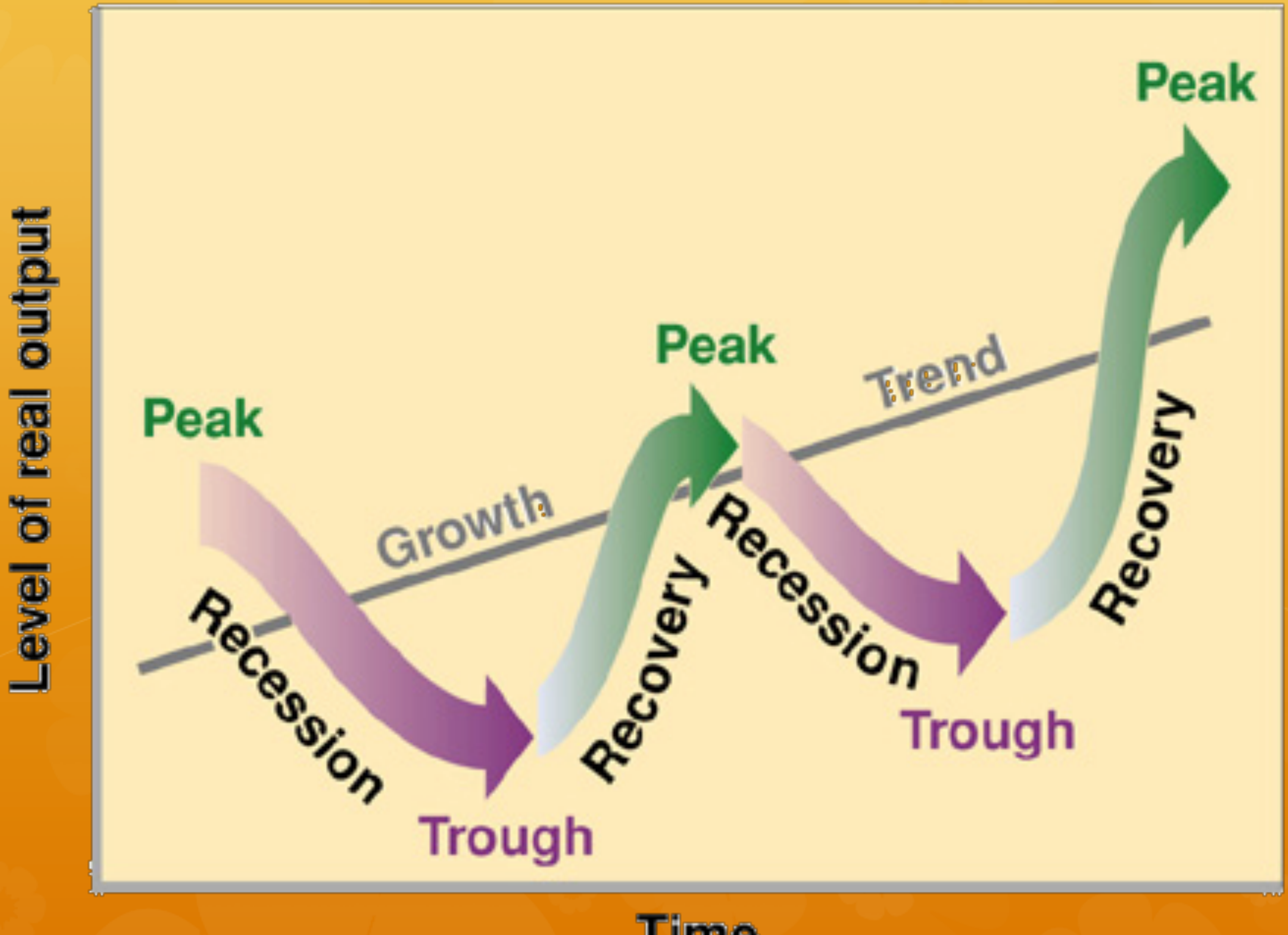
- Develop 5 scenarios that could shift aggregate demand (increase or decrease)

- Develop 5 scenarios that could shift aggregate supply (increase or decrease)

Business Cycle

- Business cycle: a period of economic expansion followed by a period of contraction
- Not minor ups and downs, major changes in real GDP above or below normal levels

Business Cycle



Phases of Business Cycle

1. Expansion: period of economic growth
   a. Plentiful jobs, falling unemployment rate, business prosperity
2. Peak: height of economic expansion, when real GDP stops rising
3. Contraction: period of economic decline
   a. Unemployment rate increases, recession, depression
4. Trough: lowest point in economic contraction, when real GDP stops falling