Higher Level

Using the expenditure method to calculate nominal GDP

Two possible ways of presenting the data.

1. C+I+G+(X-M)
2. Spending by consumers + spending by firms + spending by government + net spending by foreigners

Calculating GDP per capita:

Divide GDP by population.

Gross National Income

GNI measures the goods and services produced by factors of production owned by residents of a country i.e. country A's GNI is the goods and services produced by its factor of production which are located in country A and those located abroad. Goods and services produced in country A by foreign owned factors of production are not counted in country A's GNI.

Nominal GDP

Nominal GDP measures economic activity in **monetary** terms, at current prices.

Real GDP

Real GDP is Nominal GDP adjusted for inflation

Working out a deflator from real and nominal GDP figures

$$GDP\ deflator = \frac{Nominal\ GDP}{Real\ GDP}$$

The multiplier

The ratio of the final change in Aggregate Demand to the original change in an injection (I, X or G).

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Marginal propensity to consume (MPC)

The percentage of income that a population will use on consumption.

Marginal propensity to save (MPS)

The percentage of income that a population will save.

Marginal propensity to import (MPM)

The percentage of income that a population will spend on imports.

Marginal propensity to tax (MPT)

The percentage of income that is taken away in tax.

Marginal propensity to withdraw (MPW)

MPS + MPM + MPT

Formulas for the multiplier:

A. 1/1 – MPC

B. 1/MPS + MPM + MPT (MPW)

Measuring inflation using a weighted price index

Inflation is measured by calculating the change in a weighted index of the prices of a basket of goods consumed by households. These goods are given a weight based on the percentage of income consumers spend on them. An example of this is the consumer price index (CPI).

Short Run Phillip's Curve

Represents the trade off between inflation and unemployment.

The implications of the Short Run Phillips Curve:

- If it is government's main objective to achieve low unemployment then this can be done at the expense of higher inflation
- If it is government's main objective to

Long Phillip's Curve

Vertical. No trade off between inflation and unemployment. Increases in AD will lead to greater inflation with no increase in output in the long run.