Thursday, June 18, 2015

# Final Review

## Ch. 6 / 23

**3 big statistics to measure the economy:**

**GDP**

**Unemployment**

**Inflation**

- GDP: Gross Domestic Product:
    - measure of amount of production of physical things
    - measures amount of income, revenue, costs, expenditures in an economy
- Unemployment
    - The state a person is in if he/she cannot get a job despite being willing and able to work and actively seeking work
    - high rates of unemployment are undesirable because they indicate that a nation is not using a large portion of its most valuable resource - the talents and skills of its people
    - a problem that can be fixed
    - If not willing to work — not a part of the labor force (stay at home mom)
- Inflation
    - an increase in the overall price level
    - reduces purchasing power of peoples savings
    - price level includes: outputs and inputs, prices of goods/services, and prices of resources



## Real GDP: Real Gross Domestic Product

- measures the *final value* of goods and services produced *within the borders of a country* during a specific period of time (typically a year)

Investment:

when resources are devoted to creating/increasing future output

***The amount of investment is ultimately limited by the amount of saving***

- increased saving can only come at the price of reduced current consumption
- society must decide how to balance the reductions in current consumption required to fund current investment against the increase in future consumption that the added current investment will make possible

Households are the principle source of saving, businesses are the main economic investors

*How does savings by households get transferred to businesses, so that businesses can purchases newly created capital goods?*

Banks and other financial institutions: they collect the savings of households, and then lend the funds to businesses which invest in equipment, factories, and other capital goods



---

## Ch. 7 / 24

*National Income Accounting:*

measures the economies overall performance

- enables economists and policy makers to:
  - assess the health of the economy by comparing levels of production at regular intervals
  - track the long run course of the economy to see whether it has grown, been constant, or declined
  - formulate policies that will safeguard and improve the economy's health

*The primary measure of an economies performance is its annual total output of goods/services - aggregate output* always bad, distorts economic relationships

---

## Ch 12 / 29

Changes in aggregate supply:

- determinants of aggregate supply raise or lower per-unit production costs at each price level
- ***DETERMINANTS:***
    - input prices/resource prices: increase prices = decrease AS, decrease prices = increase AS
    - productivity (technology): the measure of the relationship between a nations level of real output and the amount of resources used to produce that output. Productivity = TOTAL OUTPUT / TOTAL INPUTS. Increase productivity = increase in AS
    - business taxes: increase in taxes = decrease in AS
    - government regulation: increase in regulation = decrease in AS, costly for businesses



---

## Equilibrium

the intersection of the AD curve and the AS curve establishes the economy’s equilibrium price level ad equilibrium real output

---

## Increase in AD: Demand pull inflation

- increase spending = shifts AD curve to the right = rise in price levels = AD increase beyond full employment = inflation = increase in demand expands real output = actual GDP exceed potential GDP

---

## Decrease in AD: Recession and cyclical unemployment