Economics 1202

Notes

Look at the economy as a whole

What makes up our economy?

Macroeconomic variables

1. Output/ Income (dollar value) Ex: the Use sold 19 trillion dollars of output which they received 19 trillion in income (GDP)
2. Inflation (prices)
3. Unemployment
4. Interest Rates

Build a model to explain how economy works

Divide the economy into sectors

1. House Hold sectors- engage in consumption, provides labor, savings, pay taxes,
2. Business Sector- Employ labor (provides benefits), produce goods and services, pay taxes, investment- (The firm either purchased or built a physical capital like machines, tools, new buildings, trucks, computers, ect) Investment is not stocks and bonds it is physical capital.
3. Government Sector- Collect taxes, infrastructure, provide aid to foreign sector, national defense, social services,
4. Monetary sector- US banking system Federal reserve (The Fed) Janet Yellen
5. Foreign sector- exchange rates, US imports, US exports

Macroeconomics variables

OutPut- GDP is our broadest measure of output

A. Nominal GDP- The current value of newly produced final goods and service.
   I. Current Value: The value output of a given year is measured using prices from that year. 2012 output is measures by 2012 prices

   II. Newly produced: GDP does not directly include the value of intermediate goods. It directly includes the value of final goods.

   Example: Good year- sells tires, sells to ford then ford sells the car to us, Tires are sold for $100 and the car sells for $20K. The car is the final good and that goes toward the GDP. The tires are intermediate good and will not affect the GDP. However, if Good year sells their tires directly to us then it will affect the GDP

   Final Goods: GDP does not include the value of previously produced goods, regardless of when they are sold
   Example: If a house is made in 2000 but sold in 2016 then is would only count in the year 2000, it will not affect the current year. Only what year it