

9/11/13

Macroeconomics Ch. 7

Nominal GDP is GDP that hasn't been adjusted for inflation

$$MV = Q * P$$

Market value = quantity * price

However this doesn't affect changes in prices, we only want to see the Q, the quantity of goods

Real GDP is GDP using a common dollar, which accounts for inflation

Except in the base year the real GDP is not the same as nominal

Chained dollars is the process of not using a base year, but instead using the average of the two prices.

When you go from 2004 to 2005 you use the average of the prices between these years

Then when you go from 2005 to 2006 you use the average of those

We usually want to use GDP per capita to find a good comparison of living standards

This still doesn't account for income distribution

The aggregate price level is a measure of the overall level of price in the economy

Economists calculate this cost by purchasing a market basket

This holds the q constant and measures the price

$$\text{Price index} = \frac{\text{cost of market basket in one year}}{\text{cost in another year}} * 100$$

The Inflation rate is the yearly % change based on the CPI

Based on the market basket of a US family

$$\text{Inflation rate} = \frac{\text{PI Y2} - \text{PI Y1}}{\text{PI Y1}}$$

New minus old over old