

ECON 1113

ECON 1113-Exam II Terms

Hello everybody. This document contains a list of terms which we have been developing since the last test. These are potential terms and/or lists which I feel may be good to know for your next exam. Every week which we have added to the list, we have defined the new terms, so I encourage you to look to your notes for the definitions of these terms. I repeat, look to your notes, not a textbook. The purpose of this document is to help to attach significance to some of these terms. Memorizing these significances will not necessarily earn you full credit on the exam. There is no guarantee that every term on the exam will come from this list, nor that the significance here will earn full marks. This is only to give you an idea of the importance of the terms on which you can ponder and hopefully expand. If in the course of your studying, you find additional terms which you would like help with significance on, email me and I will possibly add them to the list.

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GDP Gap- GDP gap measures the real or nominal economic costs of unemployment. It allows us to assign dollar and percentage values to the problem of unemployment, which in turn allows us to better correct for unemployment with targeted changes in fiscal or monetary policy. Without a GDP gap, we know what directions things need to change, but not by how much, to restore full employment.

Real GDP- Real GDP is one of the best measures of the overall productivity of an economy. It measures output in real terms, and is good for comparing year to year as a measure of growth. It is used as a target variable in policy making.

Nominal GDP- Nominal GDP serves many of the same purposes as real gdp, but it doesn't separate changes in real growth from changes in the overall price level in an economy. It is, however, much easier to calculate when we don't have or don't need full information about an economy.

Inflation- Inflation and Unemployment are the two major macroeconomic problems. High or varying inflation rates destabilize an economy and discourage investment and savings because of their effects on borrowers and lenders. Inflation can be fought with fiscal or monetary policy, but it is politically unpopular to make the changes necessary to combat inflation (i.e. decreased government spending or higher taxes). When inflation reaches a certain level, it is called hyperinflation.

Effects of unanticipated inflation on creditors- Important because these effects force creditors to raise interest rates to unnaturally high levels in unstable environments. These rates decrease borrowing and slow capital investment, hindering economic growth.

Disinflation- A slowing of a positive inflation rate shows economic stabilization and is a generally good sign.

Consumer Wealth- Consumer wealth serves much the same purpose as income and as such is a buffer against economic instability.

CPI-The best measure of the overall price level that is used as a comparison tool across time periods and currencies.

Real Interest Rate- Important in lending because it reflects economic expectations and uncertainties while nominal rates do not.

Unemployment- One of the two major macroeconomic problems. Unemployment prevents output from reaching its potential. It can be measured in economic terms by the GDP gap, but unemployment has more subtle effects that aren't measured economically. Can be combated with fiscal and monetary policy. It does not affect all groups equally.

Frictional-Structural-Cyclical- Important to distinguish between desirable and undesirable unemployment, as well as unemployment that is best countered at government level versus industry level.

Full Employment GDP- Used as a measuring stick and target in policy making.