

GDP: Consumption + Private Investment + Government + Net Exports

GNP: GDP-Factor income paid to other countries+ Factor income earned from other countries

National Income: GNP-Depreciation, OR wages+rent+interest+profit  
(Also called Net Domestic Product)

Personal Income: National Income + income received but not earned – income earned but not received

Disposable income: Personal Income-Personal Income Taxes

Net Private Investment: Gross private investment-Depreciation

Unemployment: #unemployed/labor force

Labor force participation: Labor force/civilian aged working pop

Employment to population ratio: #employed/civilian aged working pop

Underemployment rate: #employed + #discouraged + #involuntary part time/Labor force + #discouraged

CPI: value of the market basket in current year/value of the market basket in base year prices

Inflation:  $\frac{\text{CPI}(\text{new}) - \text{CPI}(\text{old})}{\text{CPI}(\text{old})}$

Real Income: Nominal Income/CPI

Real Interest Rate: nominal interest rate-inflation rate

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Economy is healthy if:

- steady and sustainable growth
- full employment
- stable prices/inflation

Opportunity cost: What's given up/what's gotten

4 Resources:

Land, Labor, Capital, Entrepreneurship

Circular flow of wealth: dollars do not disappear, but they can be concentrated in one area of the chart

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GDP: The value in dollars of all the final goods and services produced for the market, within the country's borders, during a given time period

Potential GDP: How much we should be able to produce given our resources and state of technology (shown by the PPF)

Real GDP: not influenced by inflation (adjusted for the value of the dollar)

Nominal GDP: based on the current value of the dollar

\*\*\*seasonally adjusted, annualized

Expenditure Method: Consumption + Private Investment + Government + Net Export

Value Added: The value added in each step of the process

Factor Income Approach:

BEA calculates the GDP every economic quarter

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Unemployment: To have actively looked for work in the past 4 weeks or you have been laid off/waiting to be called back

Employed: Work at least 1 hour per week

Discouraged Worker: A person who has dropped out of the labor market because he/she couldn't find a job

Civilian working age population: over 16 minus those on active duty and those institutionalized

Voluntary unemployment: leave jobs to look elsewhere

Involuntary unemployment: something has changed to make your work not needed

Frictional unemployment: short term, "between jobs", or just entering the labor market

Structural Unemployment: Job skills are no longer needed in that location

>>>Seasonal unemployment: Only have a job in the winter, etc.

Cyclical Unemployment: BAD: caused by changes in the business cycle, due to changes in the production of the economy, during recessions

Full employment: No cyclical unemployment or inflation

Natural Unemployment: The unemployment rate when economy is at full employment

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Consumer Price Index (CPI): calculated monthly by bureau of labor stats, assesses the stability of the economy

Market Basket: everything the average urban household buys

-rent, utilities, auto, food, education, clothes, entertainment, childcare, etc

-can include used goods

-changed every two years, but the base year was '83. Seasonalized (Christmas, etc)

Core CPI: Goods whose prices don't change often (much more stable)

Full CPI: Includes heavily fluctuating items (gasoline, etc.)

Inflation: The rate at which prices change!

Means that prices are increasing on average

Inflation rate is used to index wages and social security benefits, "cost of living changes"

Nominal Income: What your paycheck says (100\$)

Real Income: Shows your purchasing power (what can I buy with my income?)

Ways to determine whether income increases:

-compare the  $\% \Delta$  nominal income and inflation rate

-calculate real income in both years and compare

Unexpected High Levels of inflation:

-menu costs: the increase in the cost of doing business and the waste of resources that quickly changing prices lead to

-shoe-leather costs: transaction costs: waste of time to change \$ every day

expected inflation: people can plan for it and wages/social security will adjust when it is not expected, there is a redistribution of wealth between borrowers and lenders, employees and employers

Interest is the price of being given money

When inflation is high and unexpected, employers benefit because wages are already locked in and store prices can increase