

# ECON202 FINAL REVIEW SHEET

## LECTURE SLIDE 1:

**Macroeconomics:** studies the behavior of economic aggregates- such as income, unemployment, and inflation- on a national scale. Deals with economy as a whole

**Positive economics:** statements of how the economy does work (descriptive, scientific, devoid of value judgments).; includes descriptive economics, economic theory, and empirical economics

**Normative economics:** Statements of how the economy should work (realm of opinions, values, and public policy)

## LECTURE SLIDE 2:

**Economic models:** a formal statement of a theory either expressed in words, equations, or graphs, describes relationships between variables of interest, makes assumptions (ceteris paribus), and is an abstraction or simplification of reality

**Roots of Macroeconomics:** great depression ( a period of severe economic contraction and high unemployment that began 1929 and continued throughout the 1930s) modernist still argue and are puzzled about the origins of the depression

**John Maynard Keynes:** 1936, published the general theory of employment, interest, and money. During periods of low private demand, the government can stimulate aggregate demand to lift the economy out of recession.

### 3 major concerns of macroeconomics:

1. Output growth-
2. Unemployment
3. Inflation/ deflation

### 4 economic policy criteria

1. Efficiency
2. Equity
3. Growth
4. Stability

**Aggregate output:** the total quantity of goods and services produced in an economy in a given period.

**Gross domestic product:** the most commonly used measure of aggregate output

**The Business Cycle:** the cycle of short-term ups and downs in economy.

**Expansion or boom:** the period in the business cycle from a trough up to a peak, during which output and employment rise.

**Contraction, recession, or slump:** the period in the business cycle from a peak down to a trough, during which output and employment decline.

**Recession:** a period during which aggregate output declines. Two consecutive quarters of

decrease in output are typically considered to mark the beginning of a recession.

**Depressions:** A prolonged and deep recession. Has no technical definition of a depression

Current U.S. GDP → 15.8 trillion

U.S unemployment → 7.7%

U.S. inflation rate Feb 2012 to Feb 2013 → 2%

### LECTURE SLIDE 3:

**Gross domestic product (GDP):** the most common measure of the “size” of an economy. GDP is the total market value of all final goods and services produced within a given period by factors of production located within a country. (GDP=final sales + change in business inventories)

**Gross national product (GNP):** the same as GDP except includes goods and services produced abroad by domestically owned factors of production and excludes goods and services produced domestically by foreign-owned factors of production.

**National Income and product accounts (NIPA):** are data collected and published by the government describing the various components of national income and output in the economy. The Department of Commerce is responsible for collecting the data that allow us to measure GDP in the U.S.

#### 3 methods for calculating GDP:

1. *Expenditure approach*- computes GDP by measuring the total amount spent on all final goods during a given period ( $GDP=C+ I+ G+ (EX-IM)$  )
2. *Income approach*- computes GDP by measuring the income - wages, rents, interests, and profits- received by all factors of production in producing final goods
3. *Value-added approach*- computes GDP by looking at the value added at each intermediate step of production

**Gross Investment:** the total value of all newly produced capital goods produced in a given period.

**Depreciation:** the amount by which an asset's value falls in a given period.

**Net Investment:** equals gross investment minus depreciation. Capital at end of period = capital at beginning of period + net investment

#### Deficiencies of GDP:

1. Crime
2. Leisure
3. Household activities
4. Environmental problems
5. Underground economy

## LECTURE 4:

**Unemployment rate:** percentage of the labor force that is unemployed, key indicator of economy's health.

**Unemployment results in:** 1. Lost incomes and production and 2. Lost human capital

**Employed:** any person 16 years old or older who meets one or more of these conditions:

1. who works for pay, either for someone else or in his or her own business for 1 or more hours per week,
2. who works without pay for 15 or more hours per week in a family enterprise, or
3. who has a job but has been temporarily absent or on leave, with or without pay.

**Unemployed:** a person 16 years old or older who meets all three of these conditions:

1. Is not working
2. Is available for works, and
3. Has made specific efforts to find work during the previous 4 weeks.  
\*\* If does not apply then not in labor force

EQUATIONS...

*Labor force* = employed + unemployed

*Population* = labor force + not in labor force

*unemployment rate* = unemployed / (employed + unemployed)

*labor force participation* = labor force / population

**Current U.S. unemployment rate:** 7.8%

**Discouraged workers:** people who want to work but cannot find jobs. They grow discouraged and stop looking for work, thus dropping out of the ranks of the unemployed and the labor force, reducing both the numerator and denominator of the unemployment rate

**Discouraged-worker effect:** lowers the unemployment rate

**Measures of unemployment:** done by Bureau of Labor Statistics.

-The narrower measures, U-1 and U-2, focus on the personal cost of unemployment

-the broader measures, U-4, U-5 and U-6, focus on assessing the full amount of unused labor resources.

**U-1:** Those unemployed for 15 or more weeks

**U-2:** Unemployed job losers

**U-3:** The official unemployment rate

**U-4:** U-3 + Discouraged workers

**U-5:** U-4 + Marginally attached workers