

UNIT 2 AP MACROECONOMICS

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@simplestudiesinc on Instagram

UNIT 2: Economic Indicators and the Business Cycle

GROSS DOMESTIC PRODUCT (GDP)

- **GDP** is the monetary total value of all final goods and services produced in **one** country in a period of time.

EXPENDITURES APPROACH

Macro-Economics 101 - National Income Formula

$$Y = C + I + G + (X - M)$$

Y = National Income (GDP)

C = Consumer Spending

I = Investment

G = Government Spending

X = Exports

M = Imports

PHOTO: <https://www.adamsmith.org/blog/economics/gdp-is-becoming-an-ever-worse-measure-of-how-were-doing>

- Use the expenditures approach to calculate the GDP and add up all the spending by businesses by households, businesses, countries in the economy.

MORE WAYS TO CALCULATE GDP

Income Approach

Calculate the GDP by adding the income earned; this includes total national income, sales taxes, depreciation, net foreign factor income.

Value-Added Approach

GDP Formula

Expenditure Approach = $C + I + G + NX$

Income Approach = Total National Income + Sales Taxes +
Depreciation + Net Foreign Factor Income

Value Added Approach = Gross Value of Output – Value of Intermediate Consumption

Calculate the GDP by → gross value of output - value of intermediate consumption

PHOTO: <https://www.wallstreetmojo.com/gdp-formula/>

WHAT IS NOT INCLUDED IN THE GDP

The **GDP** **does not include the sale** of something that is **not new or does not produce a new product**.

- For example, this includes the sale of a stock. Nothing new is being produced from the sale and being added to the GDP. Another example is a **USED good such as an old coat**.
 - When I sell my old coat, I am getting money for the product BUT it is not something NEW that is being produced and therefore, does not contribute to the GDP

The GDP **only includes the FINAL goods** and **not the intermediate** (goods used to make the product) goods.

- For example, when I sell a cupcake from my bakery, the **only product** being calculated in the GDP is the cupcake and its price. The **price of the flour is not calculated**, because it is an intermediate good. Therefore, it is not calculated in the product.

The **ILLEGAL** activities are not counted in the GDP. Although there are monetary transactions, this is not included. This would include the black market, drug deals, and “under the table” transactions. Since these actions are illegal, they are not accounted for (and we do not always know when these are going on)

THE CIRCULAR FLOW MODEL

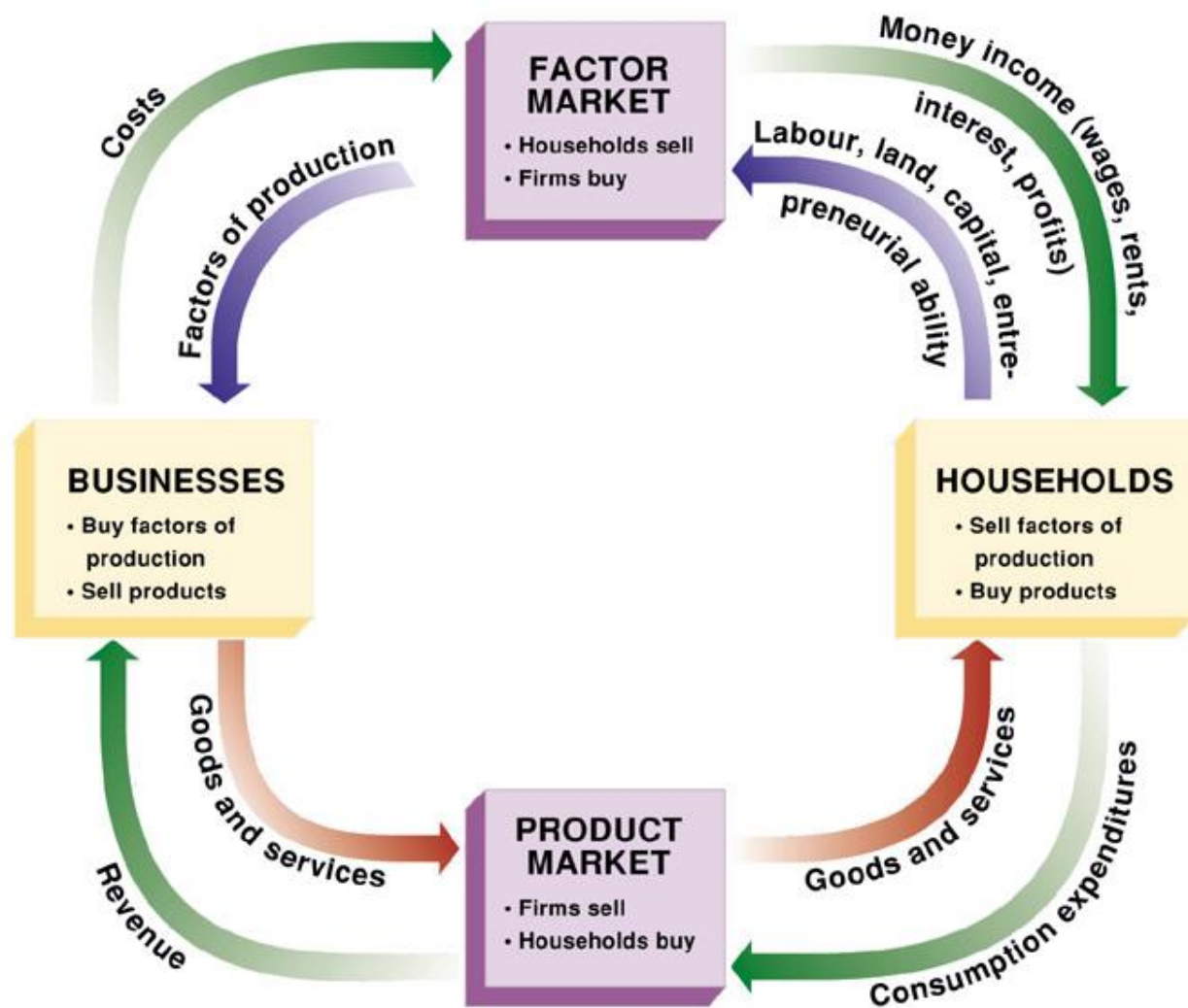


PHOTO: https://wiki.ubc.ca/The_Circular_Flow_Diagram

THE CIRCULAR FLOW MODEL shows money and transactions travel and form our society. This is demonstrated through the **factor market** (buy labor, sells resources to make products), **households** (sell labor, buys product from store - product market), **product market** (buys product from brands - ex. Grocery store buys cheese from Cabot Dairy Farms - ,

households buy from the product market), **businesses** (buys factors of production to produce product, sells product to grocery stores (product market))

UNEMPLOYMENT

Unemployment: means a person capable of working and is searching for work, but is **UNABLE to find a job.** (Able to work means they are of age and have no disability preventing work.)

- They are the ones who are **calculated in the percentage of unemployment.**

TYPES OF UNEMPLOYMENT

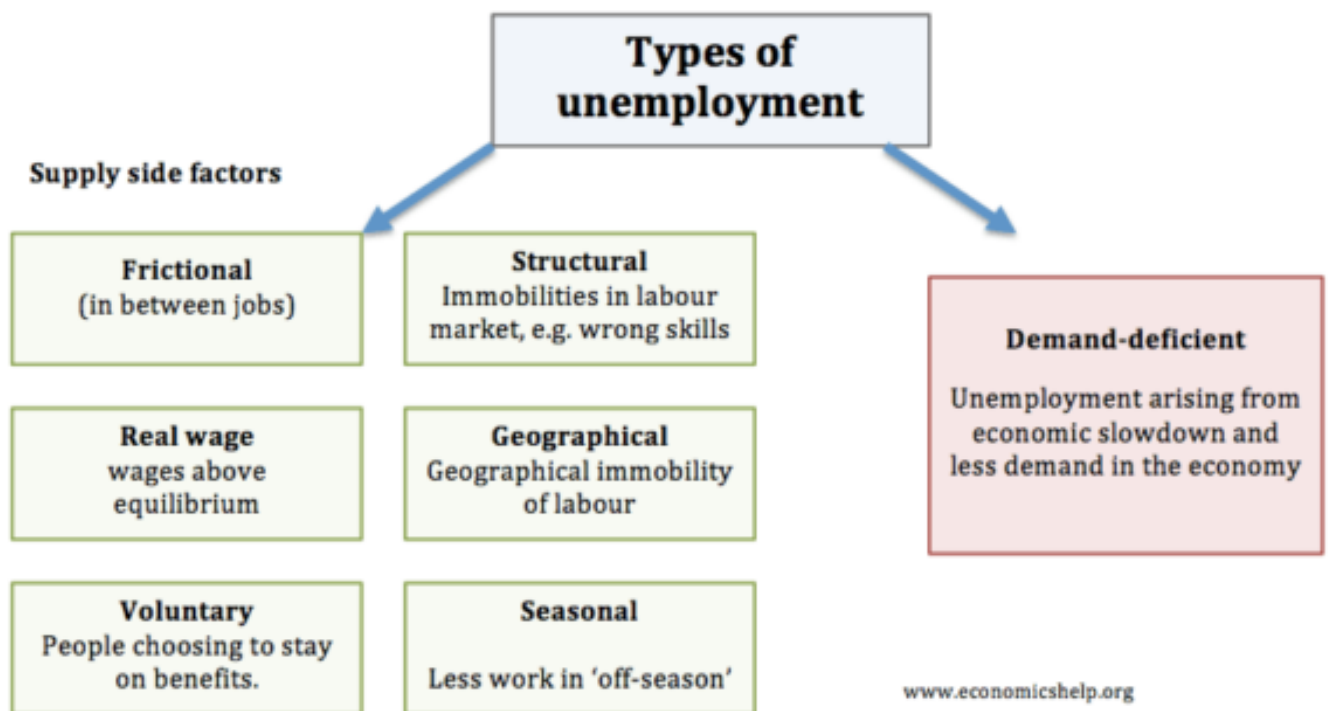


PHOTO: <https://www.economicshelp.org/blog/2247/unemployment/definition-of-unemployment/>

These are **3 MAIN types of unemployment:**

Frictional

- In between jobs → I **quit** my job at Dunkin Donuts and now I'm trying to get a new job at Starbucks.

Structural

- I am unemployed because Dunkin Donuts made a **machine** that frosts the donuts and they no longer need my labor. (**Structural**: replaced by advancement in technology and currently **unemployed because of this change**).

Seasonal

- I am a Lobster Fisherman, and it is now winter, meaning that I am seasonally unemployed. In the winter, I **stop catching lobsters**, and I am unemployed for the **SEASON**.
 - We also see other types such as in the example above.

HOW TO CALCULATE UNEMPLOYMENT

Unemployment Rate Formula



$$U = \frac{\text{Unemployed People}}{\text{Labor Force}} \times 100$$



PHOTO: <https://www.wallstreetmojo.com/unemployment-rate-formula/>

- Calculate the unemployment rate by **dividing the number of unemployed people** (people LOOKING for work who are WILLING and ABLE) by the **number of the labor force** (people working and those are WILLING and ABLE to work).
- NEXT → **multiply by 100**

CONSUMER PRICE INDEX: WHAT IS IT?

Consumer price index: is an index representing how the price of a specific product changes over a period of time. (The item and the amount remains the same.)

HOW TO CALCULATE



**Consumer
Price
Index
Formula**



$$\text{Consumer Price Index} = \frac{\text{Cost of Market Basket in a Given Year}}{\text{Cost of Market Basket at Base}} \times 100$$



CPI can vary through years because of **INFLATION**.

Inflation: The general increase of a product's price. When the price increases, the purchasing power decreases. (This means when the price rises, the amount of things or value of things we can buy decreases.)

GDP DEFLATOR: WHAT IS IT?

The GDP deflator is a measure of the economy's prices of final goods in a period of time.

CALCULATE

GDP Deflator

$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$



PHOTO: <https://www.wallstreetmojo.com/gdp-deflator/>

REAL V.S. NOMINAL GDP

Real GDP

Nominal GDP

NOMINAL VS REAL GDP

Nominal GDP	Real GDP
The market value of the final production of goods and services within a country in a given period evaluated at current market prices.	The market value of the final production of goods and services within a country in a given period adjusted for price changes that may have occurred over time.

PHOTO: <https://capital.com/nominal-vs-real-gdp-definition>

