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Ch. 1+2 Vocab

Interest Rates

$$r = i - p^e$$

If $\pi \equiv p^e$, real i, r = expected real i, r

r = real rate, i = nominal rate, p^e is expected inflation

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Inflation - annualized r.o.c. in price level over a period
(usually a yr)

Unemployment - persons above an age not being paid
but actively seeking work
- share of the working population

Investment - allocate money in expectation of future benefit

GDP - Gross Domestic Product - \$ value of all final goods + services

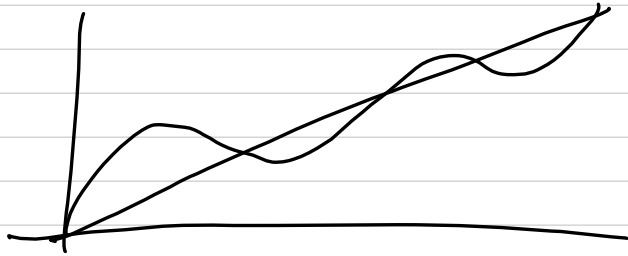
Factor Prices

Wage rate - paid to workers per unit of time

Interest rate

Saving - Amt left over after consumption

Business cycle - short run contracting and expansion



Recession - 2 consecutive quarters of negative GDP growth

Deflation - price decline

Inflation rate - annualized % Δ in level of prices

Hyperinflation - extremely high inflation rate

International Trade

Open economy - trades w/ others

Closed economy - does not trade w/ others

Surplus - exports > imports

Deficit - imports < exports

Inventory investment

Product Approach

Capital
Labor
Production

Spending

Consumption

Gov't spending

↳ tasks - eg. SS, welfare, unemployment

Rule

$$NX = \bar{E}_x - \bar{I}_m$$

Wealth vs. Savings

Household wealth - expected income + assets

Nat. wealth - \sum all households + gov't wealth

$$Savings = Income - Spending$$

Substitution Bias - people substitute long inflation
- CPI down it means it so it
cases are spread thin

