

Macro Economics

GDP

GDP(Gross Domestic product) The Total amount of goods and services produced within an economy in a given year

GDP composition

To measure the GDP it is simplest to measure the amount spent on goods and services and then subtract the part of that which is spent on goods and services produced outside the economy (imports) or before the given year (inventories). Finally goods not bought in the bought elsewhere (exports) or stored for the future are added.

- Consumption(C): The goods and services purchased by consumers
- Investment(I): The sum of
 - no-residential investment: Capital equipment and land bought by firms
 - residential investment: Housing bought by consumers
- Government spending(G): The amount the government spends buying goods and services from firms and employing workers. (government transfers are not payments for work done and are not included)
- Net exports (X-I): The total amount of exports minus imports.
- Net inventory build up

This brings us to the equation $Z = C + I + G$

- Expenditure : This must only include expenditure on goods and services produced within the economy (no imports, and no goods produced in a previous year)
- Income : This must only use income obtained by selling goods and services (no transfer payments)
- Output

GDP and total demand(Z) are used interchangeably

Exports and inventories are ignored in the beginning part of the course

Consumption

Consumption is a function of disposable income (Y_D)

income minus taxation

$$C(Y_D)$$

Unemployment

Inflation

Philips curve

ISLM model

The ISLM model models the equilibrium for income and interest rates, the quantity of money supplied and consumption.

This is represented by the intersection of the IS curve which shows the resultant interest rates for all equilibriums between money demand which is a function of income and money supply, and the LM curve which represents all the points of equilibrium (where consumption is equal to output and no inventories are built up or depleted) and consumption (which contains investment which is a function of interest rates)

Financial Markets

The Demand for money

Is the demand for liquidity and comes from people wanting to make purchases with that money.

Supply of money

The supply of money is modeled as a constant M and supplied by the central bank

Monetary policy and open market operations 58