Macro Economics

GDP

GDP(Gross Domestic product) The Total amount of goods and services produced within an economy in a given year [ˆmn] {-}There are three ways of culculating this * 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 composition

To measure the GDP[1] 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 (invetories). Finaly goods not bought in the bought elsewhere (exports) or stored for the future are added.[2]

- Consumption(C): The goods and services purchased by consumers
- Investment(I): The sum of
  - no-resedential investment: Capital equipment and land bought by firms
  - resedntial investment: Housing bought by consumers
- Goverment spending(G): The amount the goverment spendings buying goods and services from firms and employing workers. (goverment tranfers 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 $Z = C + I + G$

Consumption

Consumption is a function of disposable income [3] (Y_D)

$$C(Y_D)$$

Unemployment ———-

[1] GDP and total demand(Z) are used interchangably
[2] Exports and inventories are ignored in the begining part of the course
[3] income minus taxation

Inflation

Philips curve

GDP composition 2

Go over chapter 2

Net foriegn factor income.

Indirect taxes :Sin taxes , value add tax , import taxes

Directs taxes Direct on factor imput, wages profit

GDP at market price - direct taxs +(net subsidies)[4]

further adjustments

- further transaction on household income
- Insurance contrabutions(money is taken directly taken, south african pensions come directly from tax not from fund)
- Unemployment funds (are in douth africa)
- Corporaate taxes
- Profits that could have been paid by firms that are retained by firms
- transfer payments[5] This results in personal income
- taxes on interest This results in disposable income : The amount of income a consumer can produce

GDP is concerned with the amount of production that takes place in a country GNP is by national citizen

GDP + income from foriegn source - production from foriegn sources

Output(Value add) = Output(Income) + assume not corporate profit is retained.

Output(Value added) = output(expenditure) + No inventories

Output(expenditure = output(income) + No saving

Important

Nominal vs real GDP Nominal GDP = real GDP * current prices

- Prices measured as a pecentage of the bases year

Real GDP higher than nominal GDP means increase in output[6]

[4] indirect taxes - subsidies

[5] Do not confuse payments to and from unemployment and pension payments

[6] Q: What is calculated first infaltion or gdp, Why not exponential but go over

Unemplyment or inflation

Strict unemployment People that are activly looking for work Broad unemplyment
Poeple activly looking for work plus discouraged works (everybody who would like to work)

Broad is greater the strict easaly proovable

U or Ut is the number of people unemployed u or ut is the unemployment rate

Paticipation rate The the labour force over the population size. Higher participation rates tend to have higher employment rates.

Problems with unemplyment

- GDP excludes the illigal economy and exculdes the legal economy that is not reported for tax evasion.
- Good unemployment benefits may couses people to register as unemployed.
- Unemployemnt couses less than optimal production.

#inflation An increase in the change of general price levels. inflation rate is the differentite of inflation. An index may be simple or compound

CPI is used in south africa (goods consumed by a typical or average houshold)

- Conducts infequent houshold servays every five or more year to get weightings
- Consumer price index
- State SA trakes some prices monthly and others quaterly
- Month by month inflationn a - b / a
- monthly anual inflation rate. jan to jan … dec to dec
- annual = average of monthly annual

1. find the size of the labour force

GDP deflator Real GDP - Nominal GDP / reaGDP

GDP deflator and CPI move together most of the time but cpi moves faster from international shokes.

Competition determines how much price shocks are communicated to consumers.

Hyperinflation and deflation

Inflation affect income distrabution

- Fixed income earners such as pensioners loose income
- Distorions
- Bracket creep(Goverments try to adjust)
- Exchange and inflation tend to move together

Is inflation ever good

- In japan moderate inflation could have worked
- High deflation can lead to uncertainty
- Why does low inflation make monetary policy useless
  - Inflation and interest rate move together.
  - Centeral bank cannot reduce interest rates below zero

Chapter 3