National Income Accounting

GDP

1. Measures the total income of everyone in the economy.
2. Measures the total expenditure of an economy's output.
3. Market value of all final goods and services new produced within a country over time that is it should be legal.

Exclusions on gdp

Goods and services produced and consumed home

Goods and services sold illicitly.

Formula:

Y=C+I+G+NX

Consumption (C) exceptions

Used goods, stocks or bonds, purchase of new housing that is because they are investment.

Inclusion:

Rent etc.

NB: the expenditure approach count goods and services only when sold to final users.

Investment

It excludes: depreciation,consumer durables,capital investments.

Government purchases

It excludes: transfer payments and second hand goods.

Formula for GDP using the income approach

GDP= wages+interest+rent+profit

Lecture 2

1. GNP refers to the output produced by the countries own factors or nationals regardless of location.
2. GNP=GDP +Net factor income from abroad.
3. Note that if NFIA >0[GNP>GDP] and if NFIA <0 [GNP <GDP]
4. Capital allowance or used up value is the same as depreciation.

GDP at market price

$GDP_{fc}=GDP_{mp}$ -Indirect taxes + subsidies.

$GDP_{mp}=GDP_{fc}$+indirect taxes-subsidies

Personal income

Excludes retained earnings and includes transfer payments.

Nominal GDP

Refers to the production of goods and services at current prices.

Causes of rise in spending

The economy producing larger output of goods and services.

Good and services are at higher prices.

Real GDP

Production of goods and services not affected by changes in prices.

Formula:

Real GDP=nominal GDP/GDP deflator

GDP deflator=nominal GDP/real GDP*100.

Real GDP uses constant prices whiles nominal GDP uses current prices.

In the base year both nominal and real GDP is the same.

Limitations of GDP

1. Doesn't include leisure.
2. Nothing about distribution of income.
3. Doesn't include activities outside the market
4. Quality of the environment is not factored.

Inflation lecture 4

Inflation is the general rise in the general price level of goods and services in a country.

Inflation rate is the percentage change in price compared to the previous period.

Consumer price index

It is the measure of the average price level of a fixed market basket of goods and services by households.

CPI= cost basket of the current year/cost basket of the base year*100

Inflation rate through CPI=$\frac{costbasketofcurrentyear}{costbasketofbaseyear} * 100$

Inflation rate through CPI= $\frac{CPIincurrentyear-CPIinbaseyear}{CPIinbaseyear}$*100

Problems of CPI

The substitution bias

Introduction of new items

Unmeasured quality bias

Diffrences in GDP deflator and CPI

Composition of goods included

Weighting of different or various prices matters.

Lecture 5 unemployment

Unemployment rate= $\frac{unemployed}{labourforce} * 100$

Labour force participation rate=$\frac{labourforce}{adultpopulation} * 100$

Working population= employed+unemployed

The adult population includes the employed, unemployed and non-labour force.

Question:

Why is frictional unemployment inevitable:

Structural unemployment

Structural unemployment is a type of unemployment that arises from a mismatch between the skills of workers and the skills demanded by employers.

Reasons for structural unemployment

1. Minimum wage laws
2. Globalisation
3. Shifts in the economy
4. Efficiency wages
5. Educational and skill mismatches.

Cyclical unemployment

Cyclical unemployment is the portion of unemployment caused by temporary changes in the economy, particularly economic downturns.

Economic cost of unemployment

1. Okun's law

It suggests that for every 1% increase in the unemployment rate, a country's GDP (Gross Domestic Product) will decrease by 2% (or potentially more) compared to its potential GDP, which represents the economy's maximum output when operating at full capacity.

2. Low savings
3. Low economic growth

Economic growth

Formula for productivity

Productivity=$\frac{realGDP}{Quantityoflabour}$

Determinants of productivity

• Physical capital per worker

(K/L)

• Human capital per worker (H/L)

• Natural resources per worker (N/L)

• Technological knowledge

Role of public policy in economic growth

1. Savings and Investment

2. Diminishing Effect and Catch-Up effect

3. Investment from abroad

4. Investment in Human Capital

5. Health and Nutrition

6. Property Rights and Political Stability

7. Free Trade

8. Research and Development

9. Population Growth

The costs of economic growth

- Budgetary costs
- Consumption costs
- Sacrifice of other social goals

Benefits of economic growth

1. Increases in economic growth should make it possible to produce more of everything; it increases the possibility of providing consumer goods and services for all
2. Increased consumer goods and services may also increase the general standard of living of the population.
3. Wealth generated from increased production may eventually ‘trickle down’ to those who are poor by means of income distribution, through taxes, benefit schemes and programs.

Lecture 8 Balance of payments

if the net exports =0 then there is a trade balance

factors that influence exports and imports

exchange rates

tastes of consumers for goods in a particular country

prices of goods at home and abroad

incomes

government policies to trade

definition of balance of payments

The balance of payments (BOP), also known as the balance of international payments, is a record of all economic transactions between a country and the rest of the world over a specific period, typically a quarter or a year.

Balance of payments accounts

Current account

The transactions recorded in the current accounts are

1. The sales of goods and services.
2. Income to residents from one country to another
3. Transfers by residents from one country to another

Current Account Balance = NX + Net interest & transfers from abroad

Capital accounts

Capital inflow is about the foreign investment to Ghana and it is recorded as credit.

Capital outflow is about Ghana's purchases of foreign investment and it is recorded as debit.

Net capital inflow=capital inflow-capital outflow (credit-debit)

The short term ways of financing balance of payments

Domestic borrowing

External sources[short term]

Long term financing of balance of payments

Devaluation

Exchange rate controls

Trade protections

Uses of balance of payments

1. Shows the international economic position of a country
2. Measure of economic performance
3. Guide to fiscal and monetary policy
4. It determines the extent of foreign aid policy

Exchange rate

Exchange rate refers to the amount of one's currency traded for one unit of another country's currency in the foreign exchange market.

Determinants of exchange rate

Demand and supply $\left\{ \text{home currency and foreign currency} \right\}$

supply changes in the Ghana cedis that affects the exchange rate.

Increase in the real GDP in Ghana

Relative price level

Relative interest rate

High tastes for other goods

Exchange rate regimes

1. Floating exchange rate regime
2. Managed float
3. fixed exchange rate regime

Factors affecting exchange rate

1. Political and economic risk
2. Economic growth rate.