Notes — Week 3

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Period 3

1. Three Broad Macroeconomic Goals:
   (a) Full Employment
   (b) Price Stability
   (c) Economic Growth
2. Gross Domestic Product (GDP) — The dollar value of all final goods and services produced in a country in a year
   - The most comprehensive and important single statistic regarding an economy
   - Computed by the Department of Commerce
   - Two ways to measure:
     - Expenditure Model
     - Income Model
   - What is excluded:
     - Intermediate products
   - A very important measure indeed, but it does have some caveats:
     - Composition of output
       * Only reflects total production (e.g. what if GDP is due exclusively to weapons productions)
     - Exclusion of other activities
       * What about when I mow my own lawn?
       * What about the "underground" economy?
     - Difficult to adjust for changes in the quality of output
     - Doesn't tell us how the benefits are distributed
   - Therefore, GDP is a necessary, but not sufficient, measure of the healthy of any economy

- $GDP = C + I + G + NX$
  - C — Goods and services purchased by consumers
  - I — Investment by businesses
  - G — Goods and services purchased by government
  - NX — The net amount of exports
- Like movie gross receipts, GDP is subject to distortions over time because of inflation. Hence, comparisons over time are meaningless
- In its simplest form: $GDP = P \cdot Q$