ECON 144

GDP - Gross Domestic Product

GDP Current year - 17.1 Trillion

Deflator - (Nominal / Real) \* 100

GDP Deflator: 111.6

GDP Calculation - 3 ways

Expenditure Approach - C + I + G + (X- M)

Income Approach

Wages - 53 %

Profits 18 %

Interest 4 %

Rent 3 %

Taxes & Other 23 %

Value Added Approach

All value of Intermediate goods, from start to finish of process.

GNP - Gross National Product

Company is present in US, but goods are produced outside the country

GPI – Genuine Progress indicator

Country’s growth does it increase wellbeing of population

Current Unemployment – 5.6%

Seasonal Unemployment

Frictional Unemployment

Structural Unemployment

Cyclical Unemployment

**Unemployment**

**Inflation –** GDP Deflator or (Nominal/ Real) \* 100

**Deflation**

**CPI – Consumer Price Index**

High Inflation 70s - 137% 1970 – 1980

Why CPI might get it wrong

* Quality Bias
* Substitution Bias
* New Product Bias

BLS calculates the CPI, Unemployment, and Producer Price Index

BLS – Bureau of Labor Statistics

Producer Price Index

CPI does not measure online sales – Plane tickets not captured

Billion Prices Project – BPP – Tracks 5 million online prices daily

Interest Rates you pay and receive

Real and Nominal Interest rates

Real and Nominal Wages

Nominal wage – What you get paid

Real Wage – Adjusted for inflation

Savings interest rate vs Inflation %

Hyperinflation – Bolivia – 12000% in 19080’s, Zimbabwe

Causes – Rapid increase of printed money in circulation

Not supported by growth of output of goods and services

**Government Deficit** – Spends more than it takes in a year

Money Taken – Taxes

Spent – Soldiers, Expenditures, Social Security

Deficits are normal, non-partisan, and getting smaller

Government Bond – Government borrowing money from people

Corporate Bond – Loan to Verizon etc.

Municipal Bond – Loan to Kansas City

Treasury bond (Federal Bond) – Loan US Government the money

Deficit reduces investment I (Capital – Tools, equipment’s), and restricts Growth.

**Deficit causes supply to shift left**

**Consumption Function – Relationship between consumption, spending and disposable income**

**MPC –** Marginal Propensity to Consume

MPC – How much of each additional dollar of income, you spend on consumption – 80%

Multiplier Formula – 1 / (1 – MPC)

MPS – Marginal Propensity to Save – 20%

AE – Aggregate Expenditure

GDP (What we produce) vs AE (What we buy)

AE = GDP => Inventories unchanged => equilibrium

AE < GDP => Inventories rise => GDP and employment subsequently decrease (Next year)

AE > GDP => Inventories fall => GDP and employment subsequently increase (Next year)

**What drives AE? - Consumption**

Current disposable Income – After taxes.

Income (UP), Consumption (UP)

Household wealth

Wealth (UP), Consumption (UP)

Expected future income

Expected Income (UP), Consumption (UP)

Price Level

Price Level (UP), Consumption (Down)

Interest rate

Interest (UP), Consumption (Down)