Jan 25th: measuring the Macroeconomy

1) what drives economic growth (we don't know)

2) what causes short run recessions / inflation

Gross Domestic Product (GDP) is the market value of final goods and services produced in an economy over a certain period of time – created during great depression

- NGDP: $P \times Y$

- Y or real GDP or Output, adjusted for price changes

- GDP / capita = GDP per population

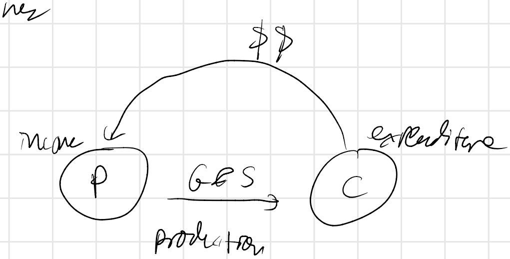
- GDP is a measure of national production, income and expenditure

$Y = C + I + G + NX$

C: consumption
I: Investment
G: government spending (excluding transfers, which are consumed/saved)

NX: exports net of imports

- Spse a farm produces 20 tangerines
  - production: 20 tangerines
  - expenditure: 20 tangerines
  - income: 20 tangerines



- Consumption: spending by consumers
- investment: saving / spending by firms on capital goods - Δ in capital stock
- government spending: on stuff other than transfers

- Other important considerations of GDP
  - other measures of welfare correlated but not ironclad
  - measurements in poor countries are flawed
  - informal sectors
  - environment
  - quality improvements
  - inequality

- Despite imperfections, GDP is probably the best measure of economic well-being
  - why are some countries rich and others poor?
  - Drivers of long term growth
  - how to counter recessions