SS201: Principles of Economics

Lesson 20: Macroeconomic Aggregates

MAJ Carson Homme
United States Military Academy

Transitioning from Micro to Macro
Preparation

Friendly Public Service Announcement...

If you normally don't read the book, this block is the time you need to start.

Not a lot of math, graphs to illustrate these concepts.

More terms / definitions and intuition than previously.

Empirical Macroeconomics and models require a lot of math tools you don't have.

Transitioning from Micro to Macro
Themes

Microeconomics

- The spot market for a single good
  - One good, one market
  - One firm
  - One worker or consumer

- Will a business operate or close in the short term?

- How will a tax on a single good affect the price and quantity of that good?

Macroeconomics

- The country's or world's economy as a whole
  - Combined analysis of all goods, all workers, all firms
  - Money / Currency

- Why are some countries more prosperous than others?

- How does the financial system affect economic growth?

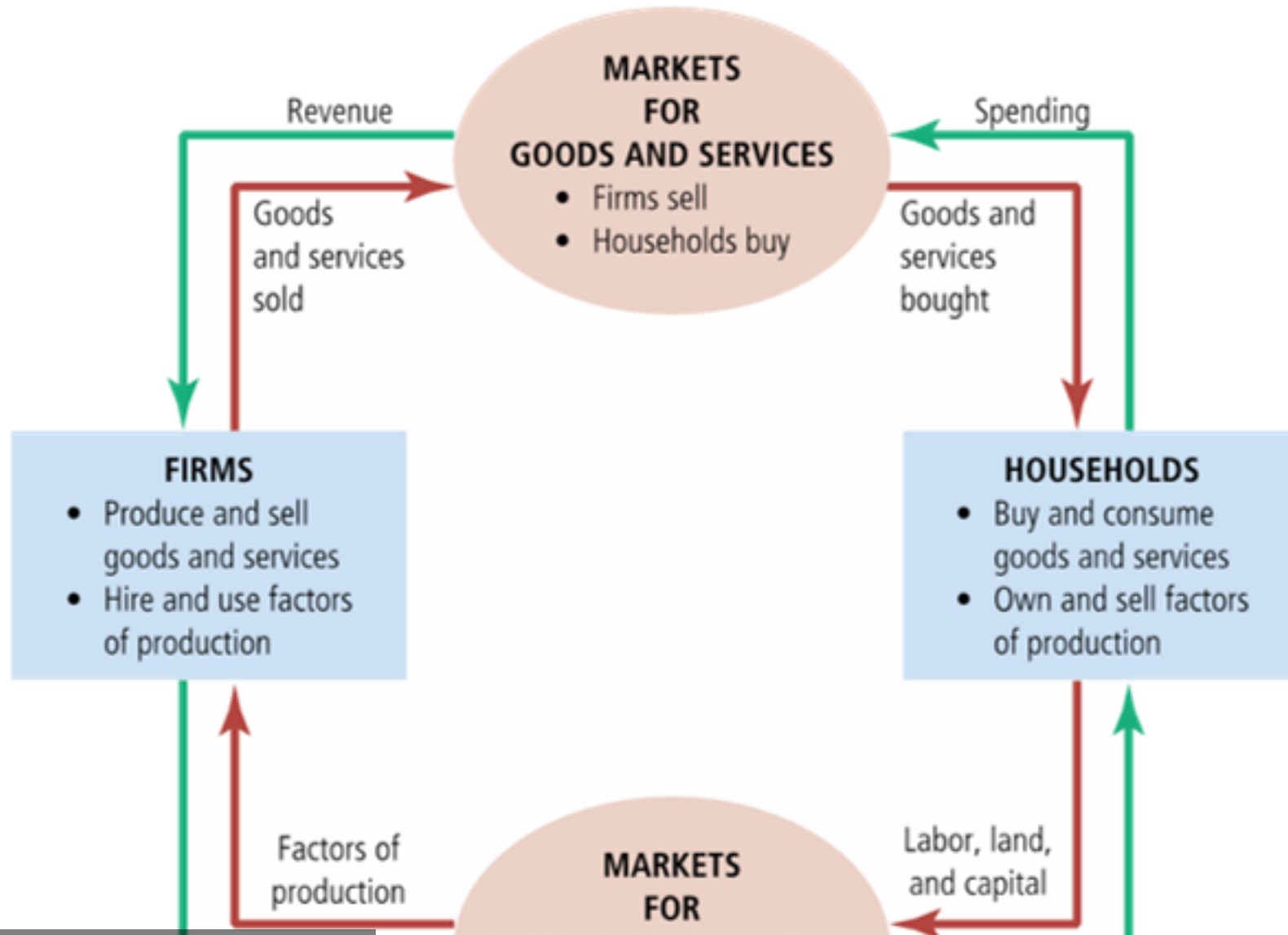# Transitioning from Micro to Macro
Measurements

Microeconomics

- Price

- Quantity

Macroeconomics

- Price Index (CPI, GDP Deflator)

- Real GDP

Transitioning from Micro to Macro

Gross Domestic Product

$$Y = C + I + G + NX$$

Consumption (C)
- Household spending on goods and services

Investment (I)
- Goods used in the future to produce more goods and services
- Includes buildings and inventory accumulation
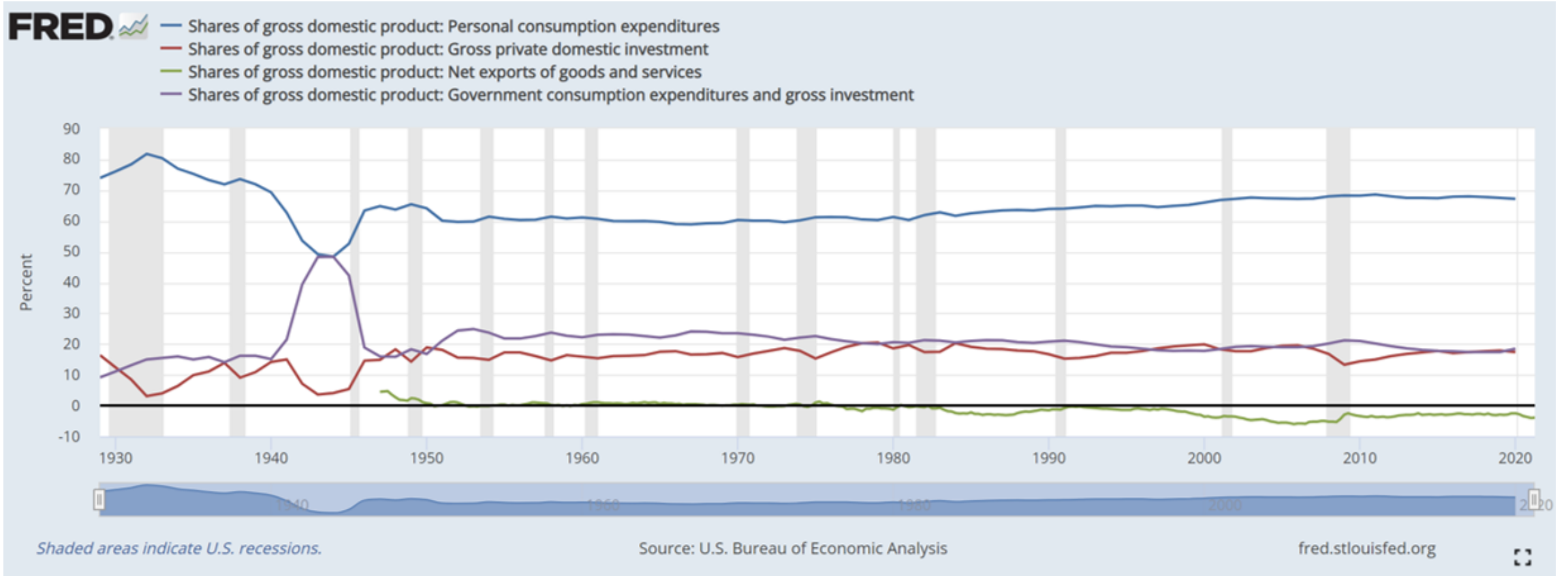- NOT individuals or banks buying stocks (equity)

Government (G)
- Federal, state, or local spending on actual goods and services
- NOT taxes or transfer payments (ex. Social Security, welfare, etc.)

Net Exports (NX)
- Exports – Imports
- We include all the stuff we make that other countries use
- But don't include the parts of C, I, and G that were produced in other countries, so subtract off

Gross Domestic Product

FRED
— Shares of gross domestic product: Personal consumption expenditures
— Shares of gross domestic product: Gross private domestic investment
— Shares of gross domestic product: Net exports of goods and services
— Shares of gross domestic product: Government consumption expenditures and gross investment

Shaded areas indicate U.S. recessions.   Source: U.S. Bureau of Economic Analysis   fred.stlouisfed.org
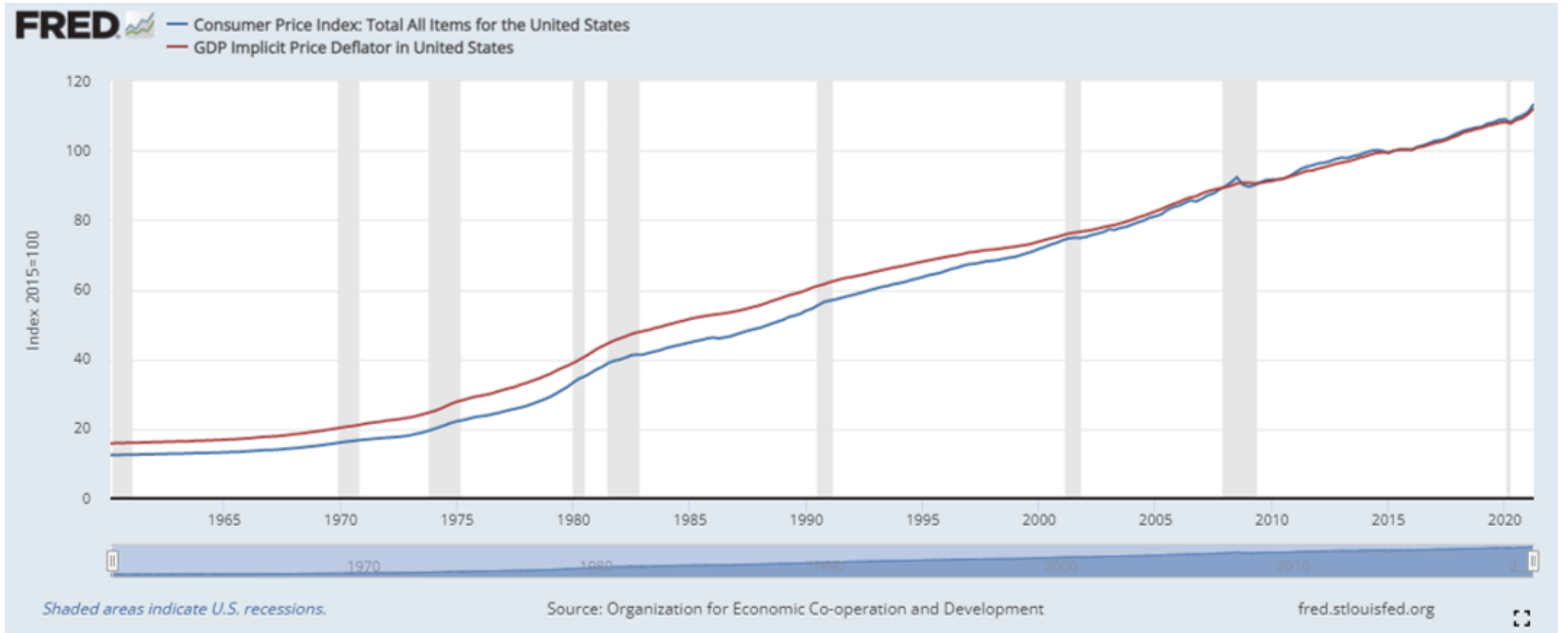
Price Levels

GDP Deflator

$$GDP_D = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

Consumer Price Index (CPI)

$$CPI = \frac{\text{Current Year Basket Prices}}{\text{Base Year Basket Prices}} \times 100$$

Price Levels

FRED 〜
— Consumer Price Index: Total All Items for the United States
— GDP Implicit Price Deflator in United States

Index 2015=100

Shaded areas indicate U.S. recessions.
Source: Organization for Economic Co-operation and Development
fred.stlouisfed.org

Real vs. Nominal

- Why make this distinction?

- What is the difference?

What year did Army pay increase the most?

Year	Pay Raise
2023	4.60%
2022	2.70%
2021	3.00%
2020	3.10%
2019	2.60%
2018	2.40%
2017	2.10%
2016	1.30%
2015	1.00%
2014	1.00%
2013	1.70%
2012	1.60%
2011	1.40%

What year did Army pay increase the most?

Year	Pay Raise	Inflation	Real Raise
2023	4.60%	8.20%	-3.60%
2022	2.70%	4.70%	-2.00%
2021	3.00%	1.23%	1.77%
2020	3.10%	1.81%	1.29%
2019	2.60%	2.44%	0.16%
2018	2.40%	2.13%	0.27%
2017	2.10%	1.26%	0.84%
2016	1.30%	0.11%	1.19%
2015	1.00%	1.62%	-0.62%
2014	1.00%	1.46%	-0.46%
2013	1.70%	2.06%	-0.36%
2012	1.60%	3.15%	-1.55%
2011	1.40%	1.64%	-0.24%

Inflation

GDP Deflator:

$$\frac{\text{GDP Deflator Year (Y)} - \text{GDP Deflator Base Year}}{\text{GDP Deflator Base Year}} \times 100$$

CPI:

$$\frac{\text{CPI Year (Y)} - \text{CPI Base Year}}{\text{CPI Base Year}} \times 100$$

Inflation

FRED 〰

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Source: Organization for Economic Co-operation and Development

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