2017-02-06

The Three Goals of Any Economy

1. Promote economic growth
    - Provide more jobs for more people
2. Limit unemployment
    - Unemployment limits growth by inhibiting production and decreasing consumer spending
3. Limitm inflation
    - High inflation discourages long-term investment

How Do We Check Up On the Economy?

- Economists love them some statistics on production, income, investment, and savings
    - **National income accounting** = a method of economic analysis that looks at the overall health of an economy by analysing certain figures
- **Gross Domestic Product(GDP)** = the market value of all final goods and services produced *domestically* annually
    - Only accounts for **final goods**
        * **Final goods** = the end-result of production/labor
            · This prevents GDP from being inflated by counting each step in production as its own good
    - Formula for calculating *change*

$$\% = \frac{GDP_f - GDP_i}{GDP_i} \times 100$$

    - GDP is just a metric of total domestic production
        * This leads us to believe that larger countries are "better" than smaller production
            · To avoid that misconception, we use GDP-per-capita

$$GDP_{per-capita} = \frac{GDP}{population}$$

            · According to the almighty authority on economis, GDP-per-capita is the *best* indicator of standard of living

Why Do Certain Nations Have Higher GDP's?

- The ultimate authority says: **productivity**
  - **Economic system** = capitalism is inherently superior to your inferior commie system
  - **Property rights** = because the factors of production are privately owned, we are all somehow more efficient
    - *Don't ask why.*
  - **Capital**
    - **Capital stock** = esentially just a synonym for physical capital
    - **Human capital** = knowledge, skills, education, etc
  - **Natural resources** = oil af

What Doesn't GDP Measure?

- GDP doesn't account for
  - Intermediate goods
  - Non-productive transactions
    - *e.g.*
      - Stock market purchases
      - Used goods
  - Illegally traded goods

2017-02-07

Calculating GDP

- There are generally two methods
  1. **Expenditures approach** = sum up all expenses that qualify for GDP
  2. **Income approach** = sum up all incocme that qualifies for GDPa
- Ideally *both* of these approaches should be roughly equal

Four Parts of GDP

1. Consumer spending(~70%)
   - Essentially just private individuals using income to purchase and consume goods and servicecs
2. Investment(~15%)
   - NOTE: this is **not** stock market purchases or bonds, as those do not qualify for domestic production
   - Rather, investment is when businesses invest capital back into the economy
     - Examples
       * Loans
       * Self-driving cars
3. Government spending(20%)
   - **NOT** transfer payments
   - Rather, things like schools and military equiptment
4. Net exports
   - Formula is essentially just

$$\Sigma X = X - M$$

   - where X is imports and M is imports