

Essentials of Economics II

Chapter 2: Macroeconomics

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Ferdowsi University of Mashhad

Spring Term 2024

What is **Macroeconomics** about?

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It analyzes the general economy and factors affecting it including **unemployment**, **inflation**, **economic growth** and monetary and financial policy.

Full Employment

The situation in which, in the labor market when **almost all people** who have **skills** and **expertise** and are **willing** to work are employed in various jobs and services.

Full employment usually does not mean the employment of 100% of the human force, because always in the economy, some percent (5-6%) of the human force ready to work is unemployed due to **natural reasons**.

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Natural reasons:

- For instance, workers who are "**between jobs**" for short periods of time as they search for better employment are not counted against full employment, as such unemployment is **frictional** rather than **cyclical**.
- An economy with full employment might also have unemployment or underemployment where **part-time** workers cannot find jobs appropriate to their skill level, as such unemployment is considered **structural** rather than **cyclical**.
- Full employment marks the point past which expansionary fiscal and/or monetary policy cannot reduce unemployment any further without causing inflation.

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Price Stability

- **Price stability** occurs when all goods have a **fixed price** or their price **changes are very small**.
- Price increases should be small enough not to create the problems that come with high inflation for people and businesses. But they should be large enough to avoid bad scenarios that may unfold if inflation falls too low.

Economic Growth

- **Economic growth** refers to the change in the **volume of economic activities** in a country.
- In fact, economic growth **measures** the change in the total economic activities of a country or a region.
- To calculate the economic growth, the **gross domestic production** of the country or region is used.

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- GDP = gross domestic product
- Economic growth can be positive or negative.
- **Stable economic growth:** Economic growth is said to be able to resist negative economic shocks and return to the equilibrium level.
- **Sustainable economic growth:** Economic growth is said to be dependent on more goods. Also, economic growth is said to give importance to the environment and cause the least damage to it.

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GDP, GNP, NI

- **Examining** the state of demand and its management and in **general macroeconomic** analysis requires an examination of the state of the **gross national product** and its components.
- National accounts, in the framework of which production and gross national income and its components are examined, are presented as the first subject of macroeconomic knowledge.
- **Definition of Gross Domestic Product:** (GDP=Gross Domestic Product) It is equal to the total monetary value of final goods and services produced in the country during a certain period (a financial year).
- **Definition of Gross National Product:** (GNP=Gross National Product) It is equal to the total monetary value of final goods and services produced by the citizens of a country throughout the world during a certain period.
- **Definition of National Income:** (NI = National Income) It is equal to the income earned by the owners of the factors of production in the economy.

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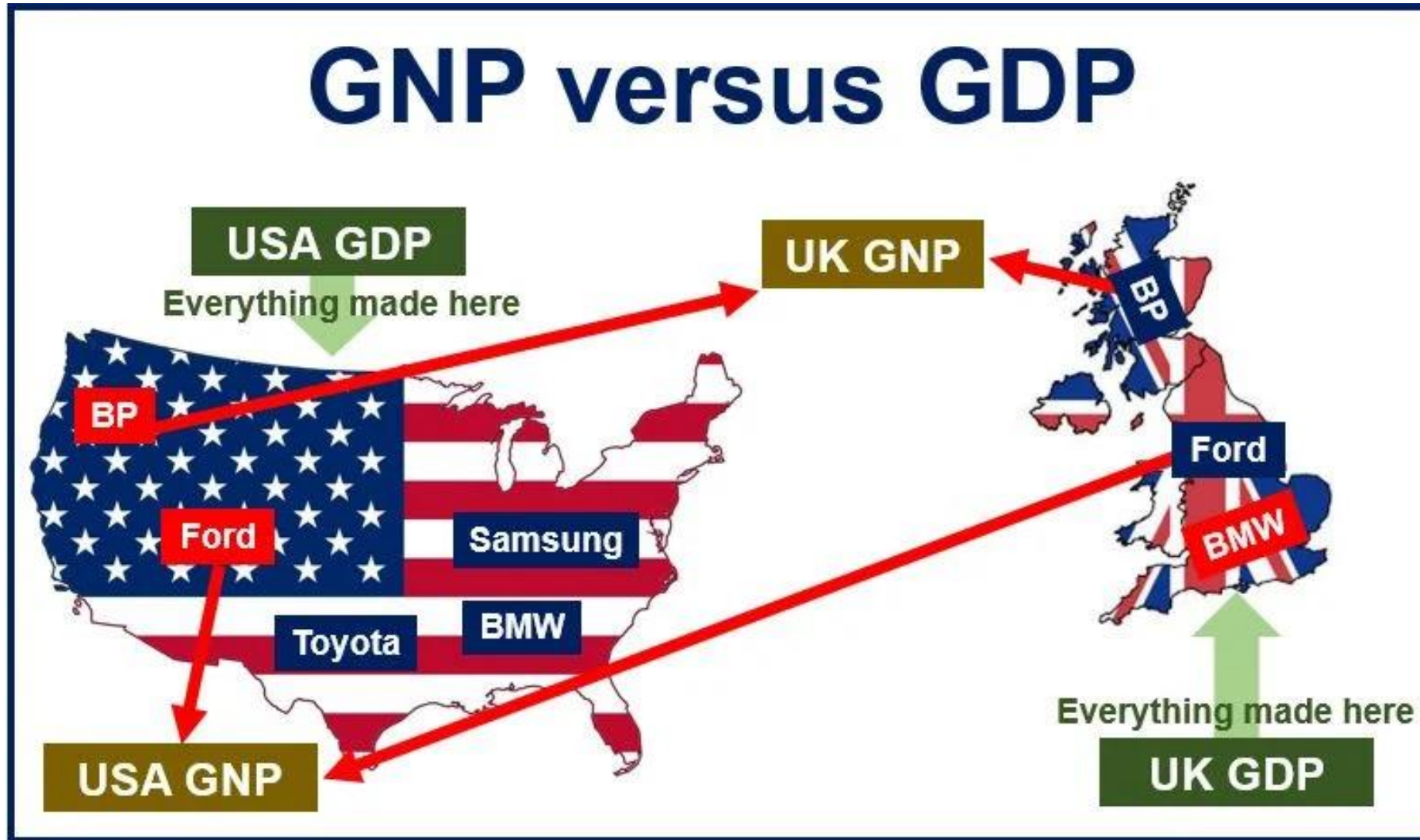
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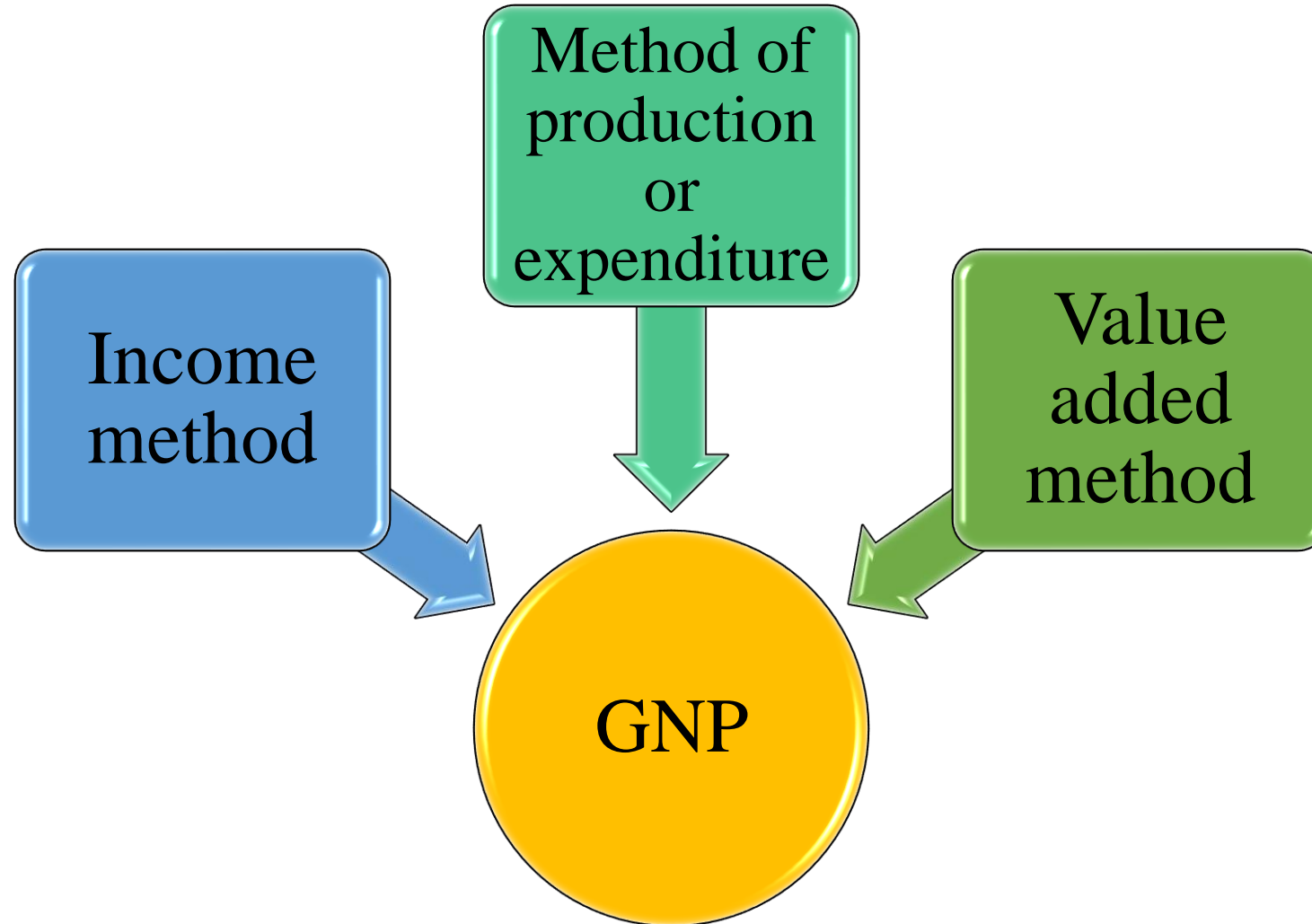
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Macro Story, GNP, Calculation by value added method

Definition of added value:

It is the **net value** of final goods and services produced in a given financial period (a financial year).

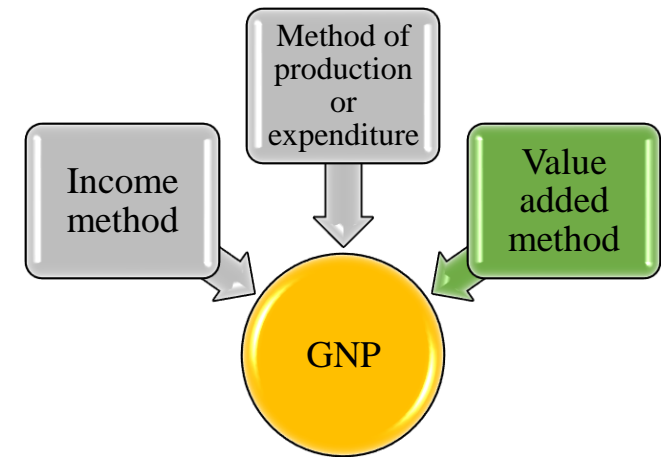
Product (good) definition:

Economic value is the result of an economic activity that is consumed **during** or **after** production.

We have two types of goods

1- **Durable goods:** There are goods that cannot be consumed within a year, such as refrigerators, televisions, etc.

2- **Non-durable goods:** There are goods that can be consumed within one year after their production.



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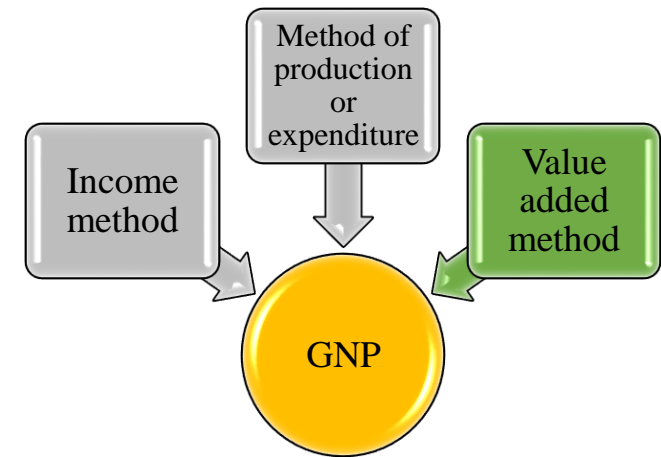
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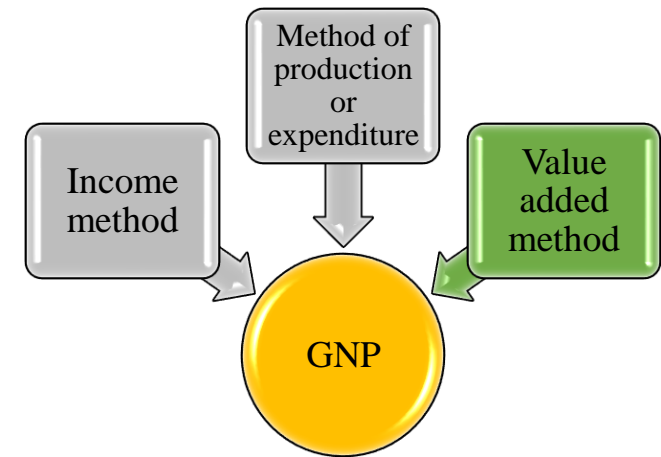
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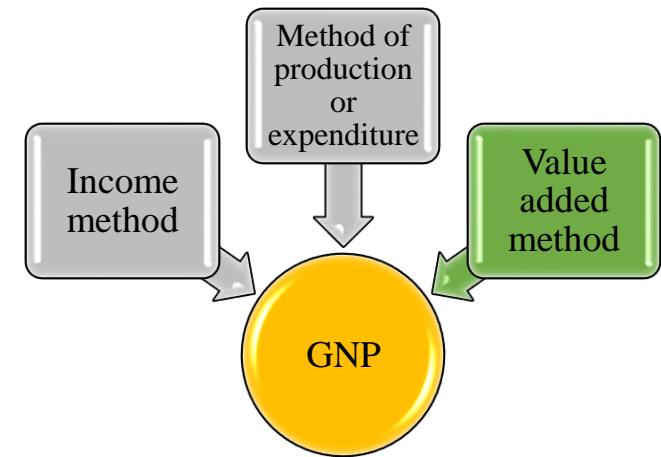
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Economic goods can be divided into 3 categories:

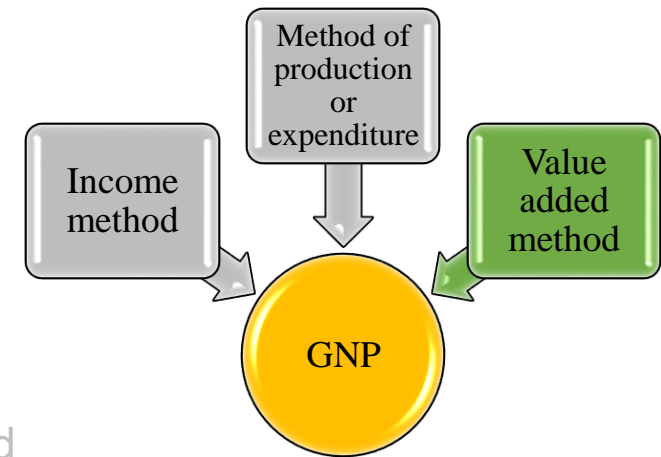
1- **Consumer goods:** are goods that are directly used to meet human needs and desires, such as food, clothing, etc.

2- Intermediate goods: they are goods that are used in the production of other goods and services. Like a steel sheet in car production. The consumption or mediation of goods depends on the type of use

3- Capital goods: It is a durable good that provides productive and productive services to producers until the end of its life. such as production equipment, road and...

Service definition:

Economic values are the result of an economic activity that is consumed during production, such as teaching students.



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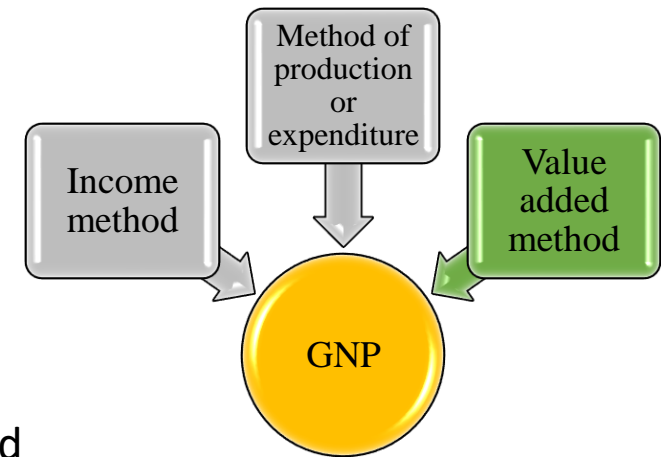
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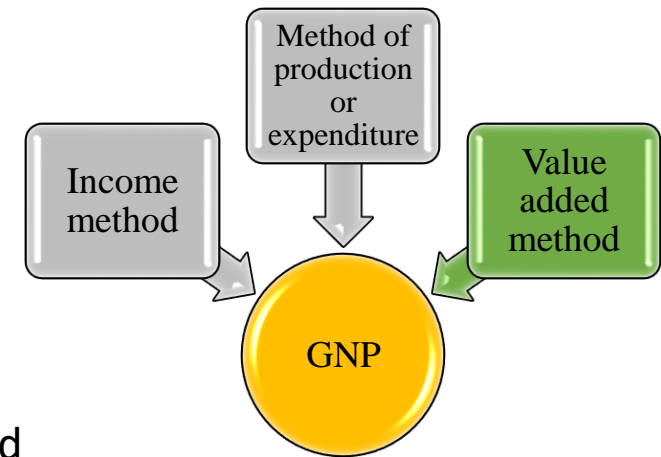
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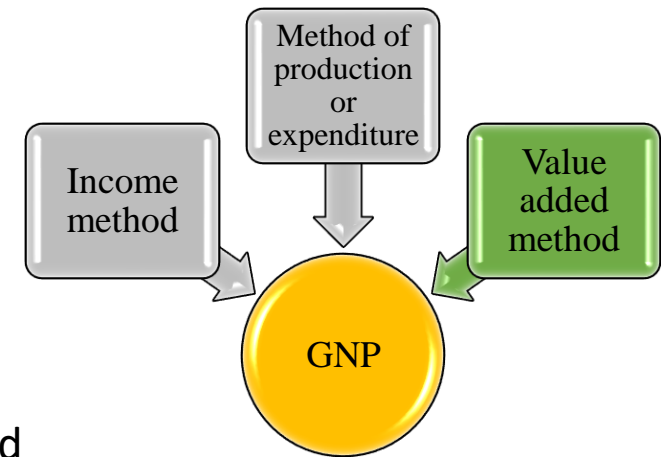
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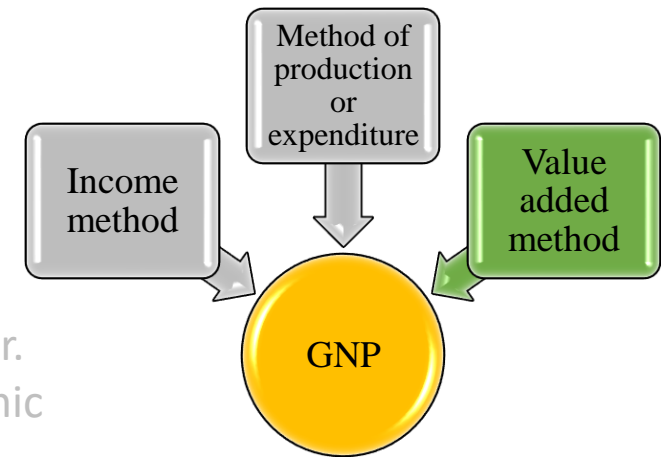


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Steps to calculate gross national product by value added method:

1. We divide all economic activities into **n** parts.
2. Then we go to **each sector** and calculate all the economic values created by each sector. The criterion and basis for calculating the added value of each sector is the economic values produced this year by the production factors in that sector.
3. To calculate the added value of each sector, we consider the **value of the goods and services produced in that sector in one year and all the value of intermediate and semi-finished goods related to the previous year or years** as well as all intermediate costs from We deduct it.

The number that is obtained shows the value of goods and services produced only by the production factors of this sector in a given year, which is distributed among them in the form of salaries, wages, rent, interest and profit.

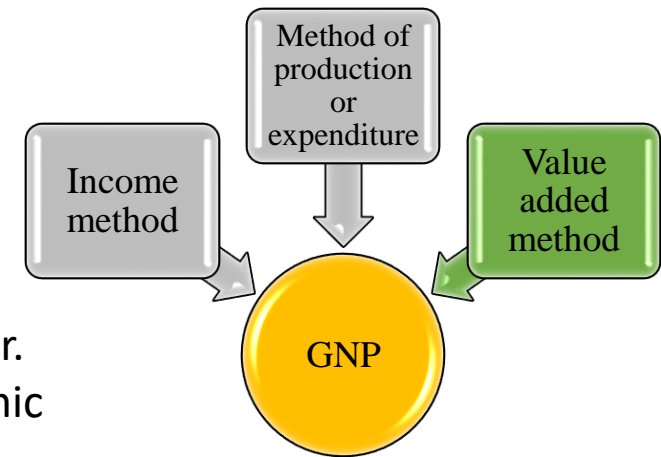


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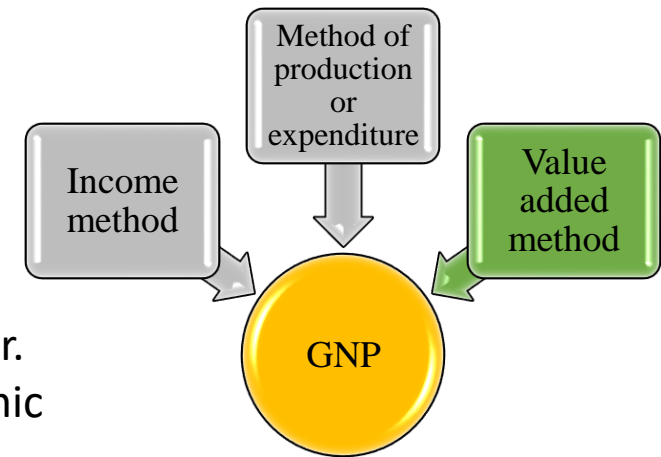


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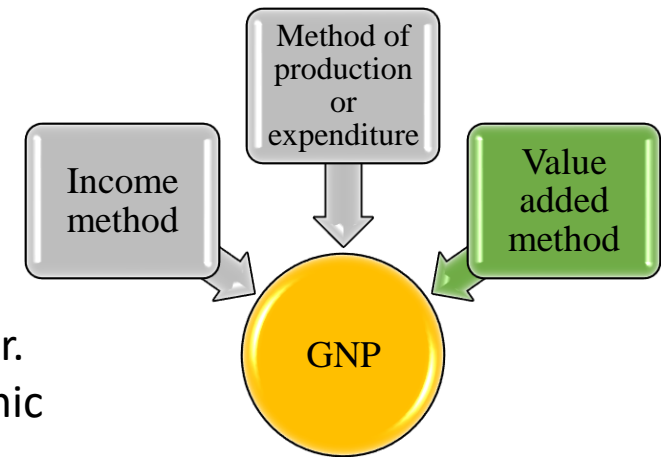


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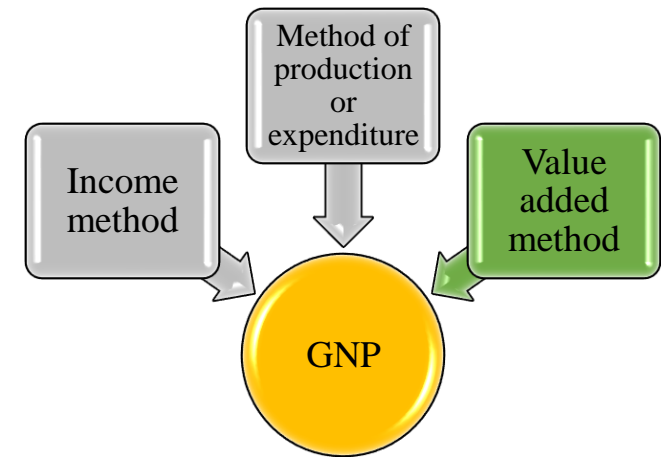
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Finally, to calculate the GDP at factor prices (GDP_f), we add the added value of different sectors of the economy together and deduct the accounting fee from it.

$$GDP_f = V_1 + V_2 + V_3 + \dots + V_n - \text{accounting fee}$$