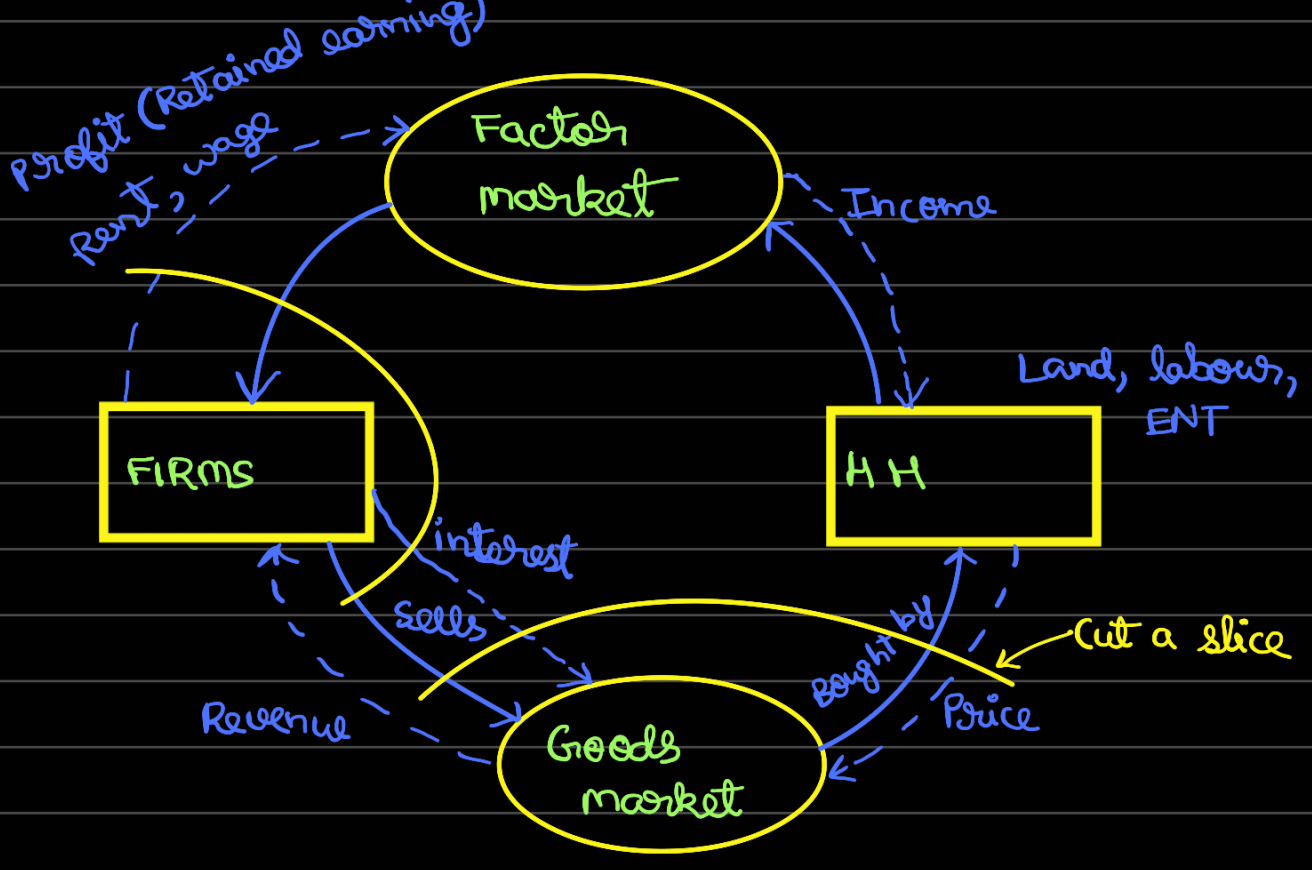
Day - 3

→ Simple economic model for calculating GDP in a year (t):

GDP - value of all the final goods and services produced within the geographical boundary of a country in a year (t)



CIRCULAR FLOW DIAGRAM

→ Consumption Expenditure
→ Investment
→ Total GDP Expenditure method:

$$GDP = C + I$$

→ Income method of GDP

GDP = Wage + Interest + Profit + Rent

$\therefore C + I$ = Wage + Interest + Profit + Rent

Assumed: whatever firm produced in a year it sold in that year.

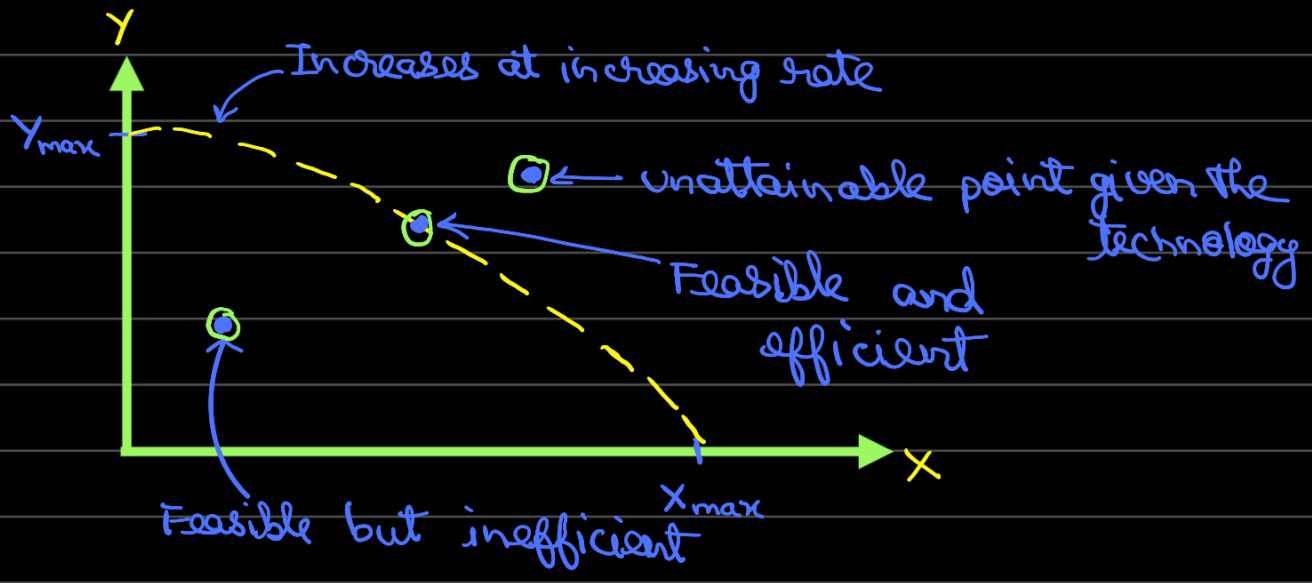
Equilibrium → no unwanted inventory

→ Production possibility frontier –

Scarce resources in production

Producing 2 goods: X, Y

Scarce resource: L



This graph is known as production possibility frontier.

→ Opportunity cost: Giving up production of 1 good for production of another.

→ Social welfare function.

max: $W(X, Y)$

→ labour

$T(x, y) \leq L$

↳ max. available labour

$x \geq 0, \; y \geq 0$

→ Assumptions:

- Scarce labour
- Fixed technology
- Rationale people
- X and Y needs labour to produce
- Only 2 goods to produce.