Macroeconomics: models built to explain macroeconomic phenomena.

Gross Domestic Product: the quantity of goods and services produced **within a country’s borders** over **a particular time period**.

A macroeconomic model captures the essential feature.

Basic structure of a macroeconomic model:

* Consumers and firms
* The set of goods that consumers consume
* Consumer’s preferences
* The production technology
* Resources available

The nominal interest rate and the inflation rate are positively related.

Real interest rate equals to Short-term nominal interest rate minus the actual rate of inflation. Monetary policy can have a short -run effect on the real interest rate. In example, a tight monetary policy might lead to a high real interest rate and a accommodative policy could bring low or negative real rate.

The following are six fundamental macroeconomic​ questions:

• What causes sustained economic​ growth?

• Could economic growth continue​ indefinitely, or is there some limit to​ growth?

• Is there anything that governments can or should do to alter the rate of economic​ growth?

• What causes business​ cycles?

• Could the dramatic decreases and increases in economic growth that occurred during the Great Depression and World War II be​ repeated?

• Should governments act to smooth business​ cycles?

Economic activity in the underground economy cannot be measured directly – this activity might be measured indirectly by accounting for the use of currency.

Government production is hard to measure, as the output is typically not sold in the market.

A measure of the inflation rate is price indices – weighted average of a set of observed prices, allows us to measure the inflation rate, and the measure of the inflation rate allows us to determine how much of an increase in GDP is nominal and how much is real.

Working age population: employed, unemployed, and not in labour force

Labour force =employed + unemployed

Unemployment rate = number unemployed/**labour force**

Participation rate = labour force/**working age population**

Measuring GDP:

Income approach