Macroeconomic Concepts

- **Unit 3: SSEMA1-SSEMA3**

Homework:

- Reading/ Study Guide Chapters 8-16
  - Due November 3, 2010


MACROECONOMICS

- **Is the study of the economics of a nation. Macro examines the effects of events on the economy in *aggregate (in total).* It is important to understand how nations/economists measure and evaluate economic activity.**

SSEMA1

- **The student will illustrate the means by which economic activity is measured.**

SSEMA1_a

- **Explain the overall levels of <u>income,</u> <u>employment</u>, and prices are determined by the spending and production decisions of <u>*households,*</u> businesses, and <u>next exports</u>.**

Income

- **Total amount of income going to the consumer sector before individual income taxes are paid.**

Fixed Income

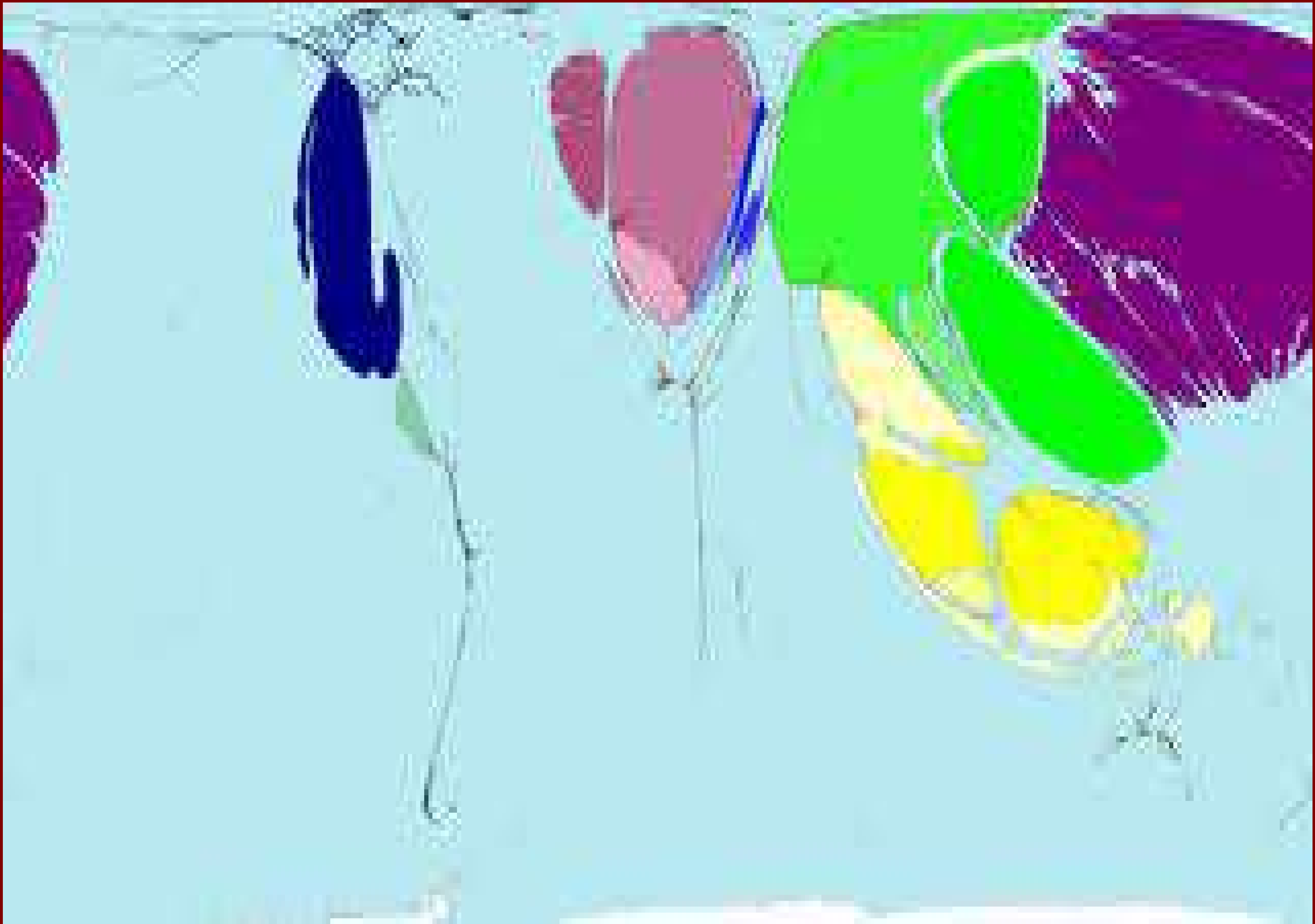
- Income does not change ….yet the prices of goods and services do change.

Employment

- A job or an occupation held by individuals in the consumer sector which they get paid to do.

Net Exports

- **Are the amount of goods or resources a nation is exporting and selling, once one subtracts the amount of total imports from total exports**



- **Total Number of Exports-Total number of Imports = Net Exports**

SSEMA1_b.

Define GROSS Domestic Product (GDP), economic growth, unemployment, Consumer Price Index (CPI), inflation, stagflation, and aggregate supply, and aggregate demand.

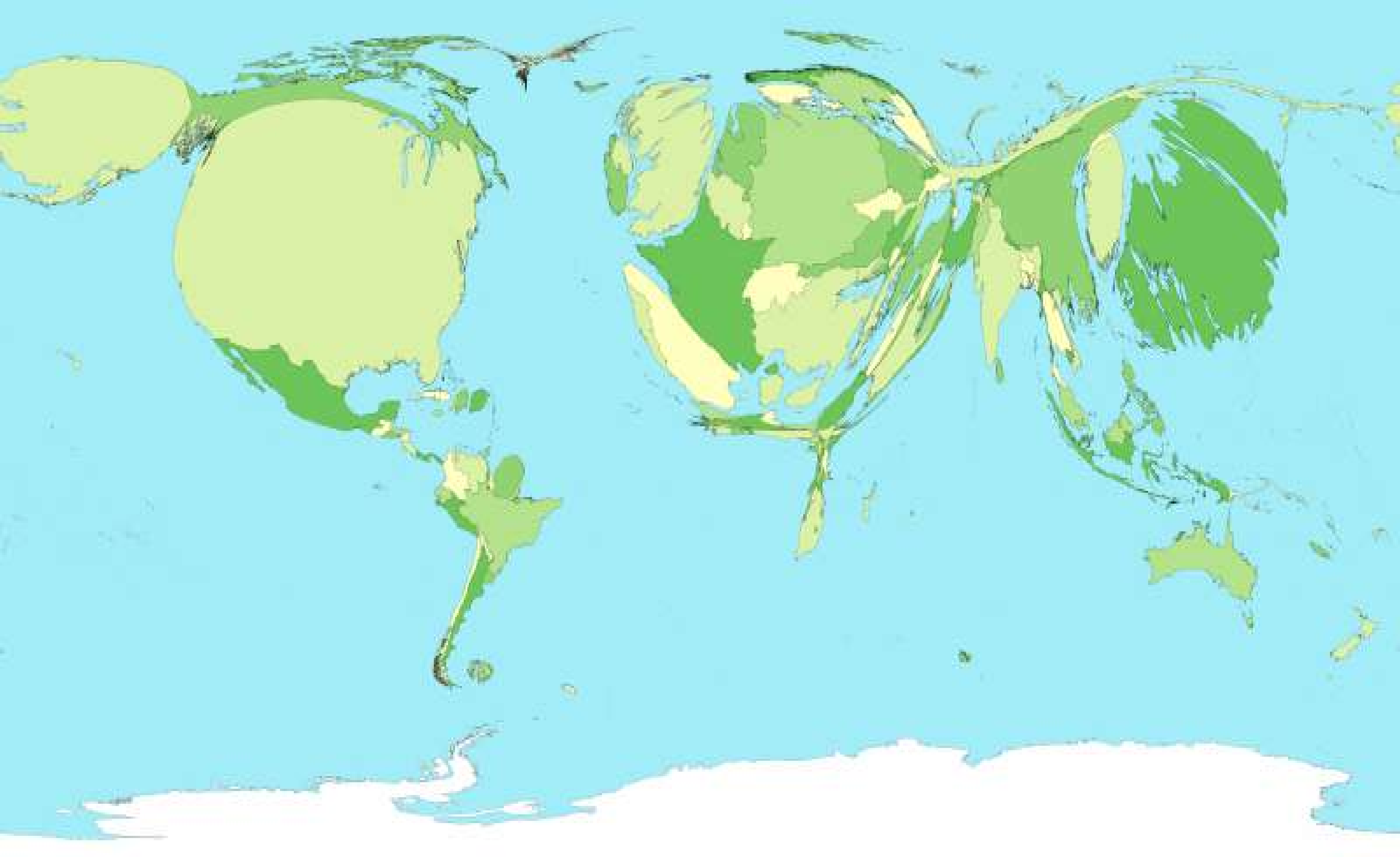
SSEMA1_c

- **Explain how economic growth, inflation, and unemployment are calculated.**

SSEMA1_d

- **Identify <u>structural</u>, <u>cyclical</u>, and <u>frictional</u> unemployment.**

GDP-



- **Is the Total value of all final goods and services produced in a nation over a time period usually a year. The more final goods and services an economy produces, the healthier it is generally considered to be.**

SSEMA1_c economic growth calculation

- **GDP is equal to the total of all consumer spending, business investment, gov't spending, and net exports.**

GDP Calculation (economic growth)

- GDP= C + I+G+Xn
- C = consumer spending
- I = Investment
- G=Government Spending
- Xn = Exports-Imports

Side Note………

- **The reason we subtract our imports from our exports is this: The money other countries spend on our exports adds value to our economy, while the money we spend on goods imported from other countries takes money out of our economy.**

Economic Growth

- **Sustained period which a nation's total output of goods and services increases.**

Unemployment


PARK

- **State of working for less than one hour per week for pay or profit while being available and having made an effort to find a job during the past month.**

SSEMA1_c: Unemployment Rate

Unemployment Rate =

Number of people looking for work

Number of people in labor force

Labor Force

- To be counted in this calculation a person either has a job or is looking for one.

Structural Unemployment

- **Occurs when skills of the labor force do not match those that employers need. (SSEMA1_d)**

Frictional Unemployment

- **Occurs when people decide not to take a particular job because they are looking for a better job that suits their talents, needs, and desires.** **(SSEMA1_d)**

Seasonal Unemployment

- **Affects mainly people whose jobs depend on the weather** (SSEMA1 d)

Cyclical Unemployment

- **Occurs because of a downturn in the economy. (SSEMA1_d)**

Consumer Price Index (CPI)

- **Is an economic Indicator**
- **Measures Inflation**
- **Measures monthly changes in the costs of goods and services by monitoring the prices of goods and services that are typically purchased by consumers.**

CPI: Calculation

Economists add up the total price of a "market basket" or typical items bought by an average family in a month. They compare this total price to the total price of the same items during a base period (the year before)

$$\text{CPI} = \frac{\text{Cost of today's Market Basket}}{\text{Cost of market basket in previous year}} \times 100$$

(SSEMA1_c)

Index is 100 which is the base year

CPI= $1,000 (2007)

$960 (2006)

X 100 = 1.04 = 104

Which represents 4% increase.

Inflation

- **Refers to an increase in the average price of goods and services bought by the average consumer**

Inflation Occurs

- Consumer demand is high and/or supply is short
- The Consumer Price Index is High

- Prices increase consumers get less for their money
- The Money supply in an economy increases too quickly

Stagflation

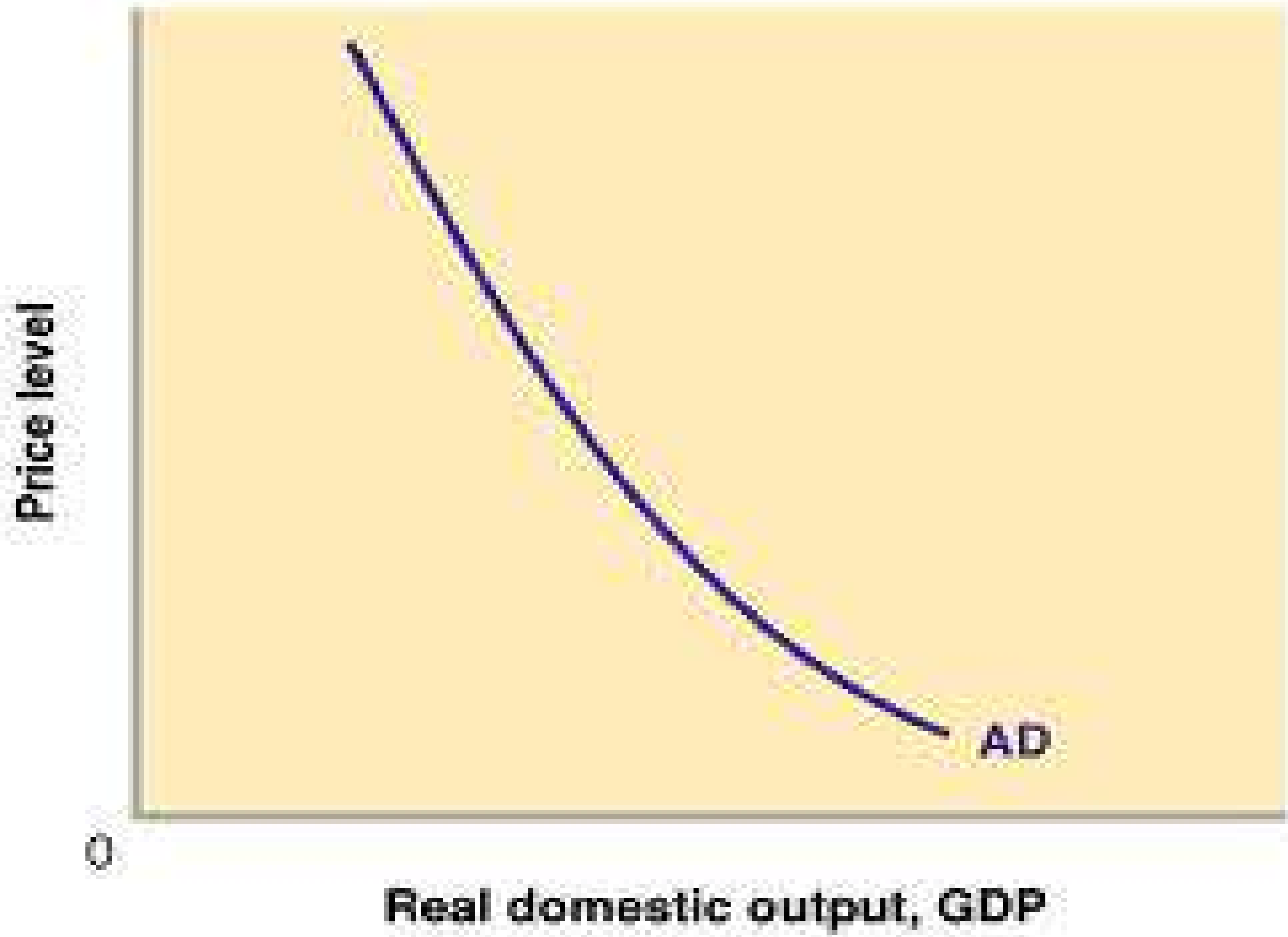
- **If prices increase but the economy does not grow**

- **Problematic to correct because solutions that address inflation tend to make existing unemployment worse**

- **In individual markets, supply and Demand interact to establish prices. In the nation as a whole, aggregated supply and aggregated demand interact to determine whether the economy is growing or declining.**

Aggregated Demand

- **Is the total amount of goods and services that all of the people in a an economy are willing to buy…the Aggregated Demand curve slopes downward**

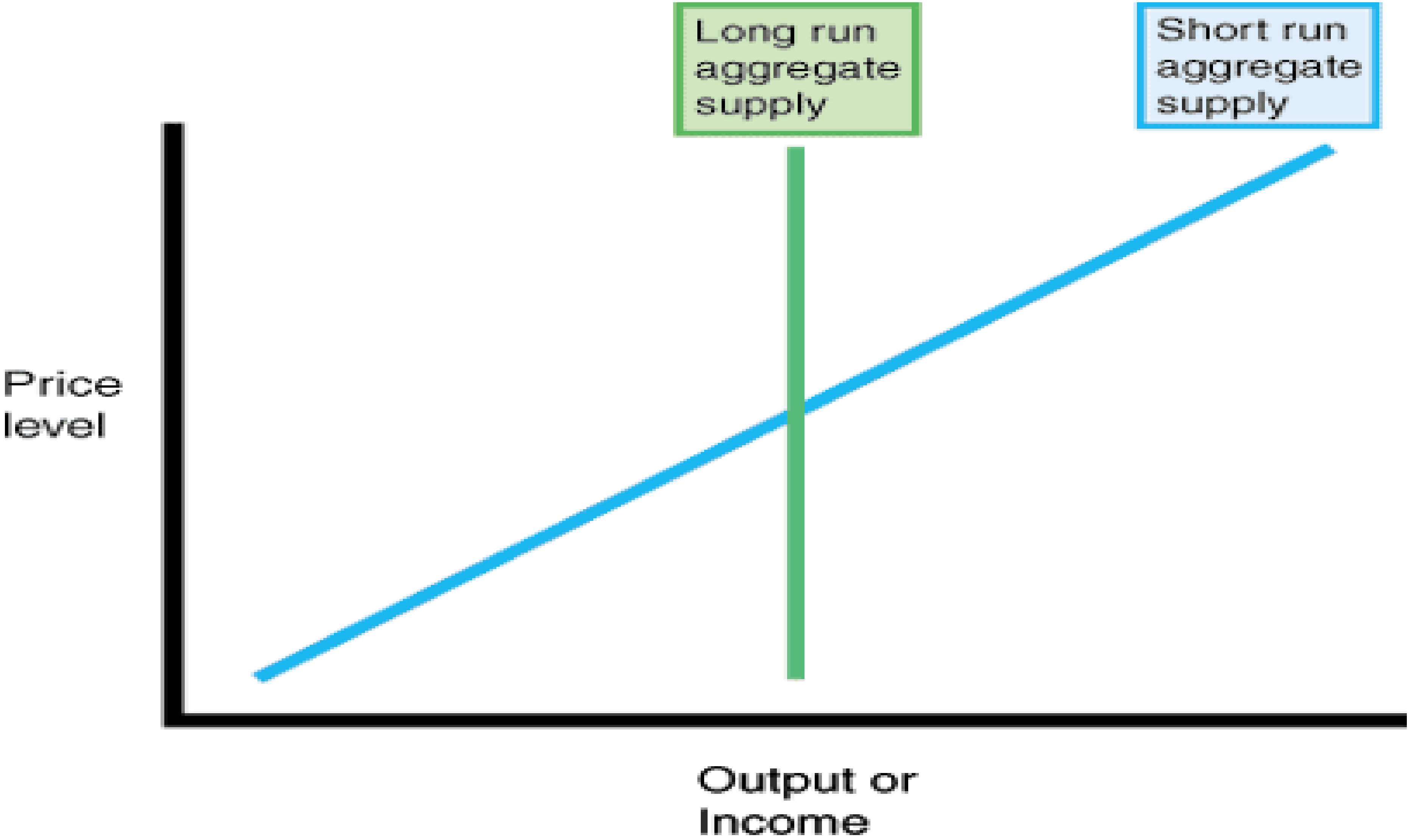


Price level
AD
0
Real domestic output, GDP

Aggregated Supply

- Is the total amount of goods and services that all producers in an economy are willing and able to make

Two Aggregate Supply Curves



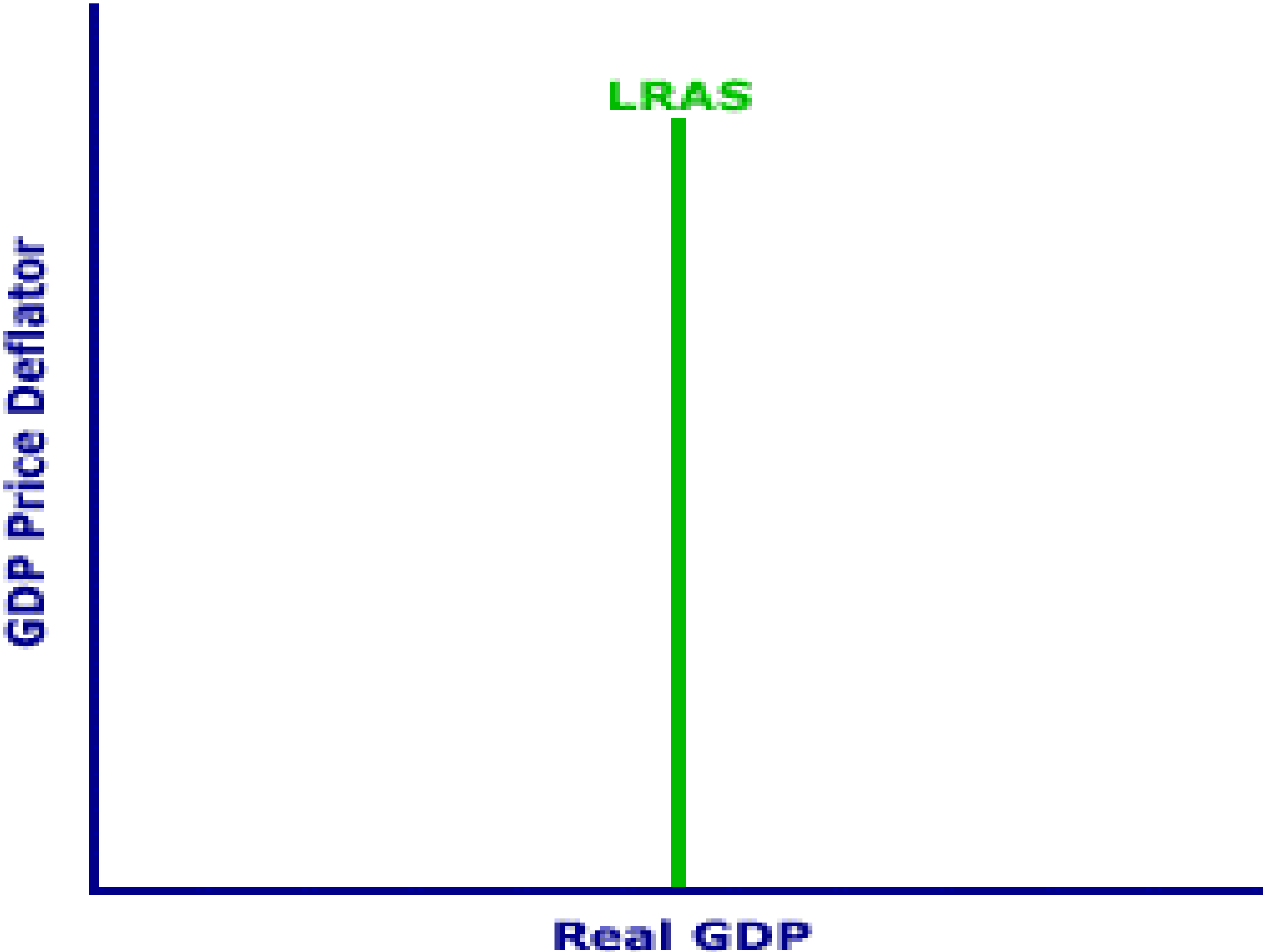
Short-Run Supply Curve

- **Producers make slightly more goods as prices increase and slightly less as prices decreases…The short-run aggregate supply curve slopes generally upward.**


SRAS
GDP Price Deflator
Real GDP

Long-Run Aggregate Supply Curve

- **The total amount that any economy can produce (the real GDP) remains fairly constant, because a nation’s real GDP is limited by its resources. For this reason, the ALRSC is a straight vertical line.**

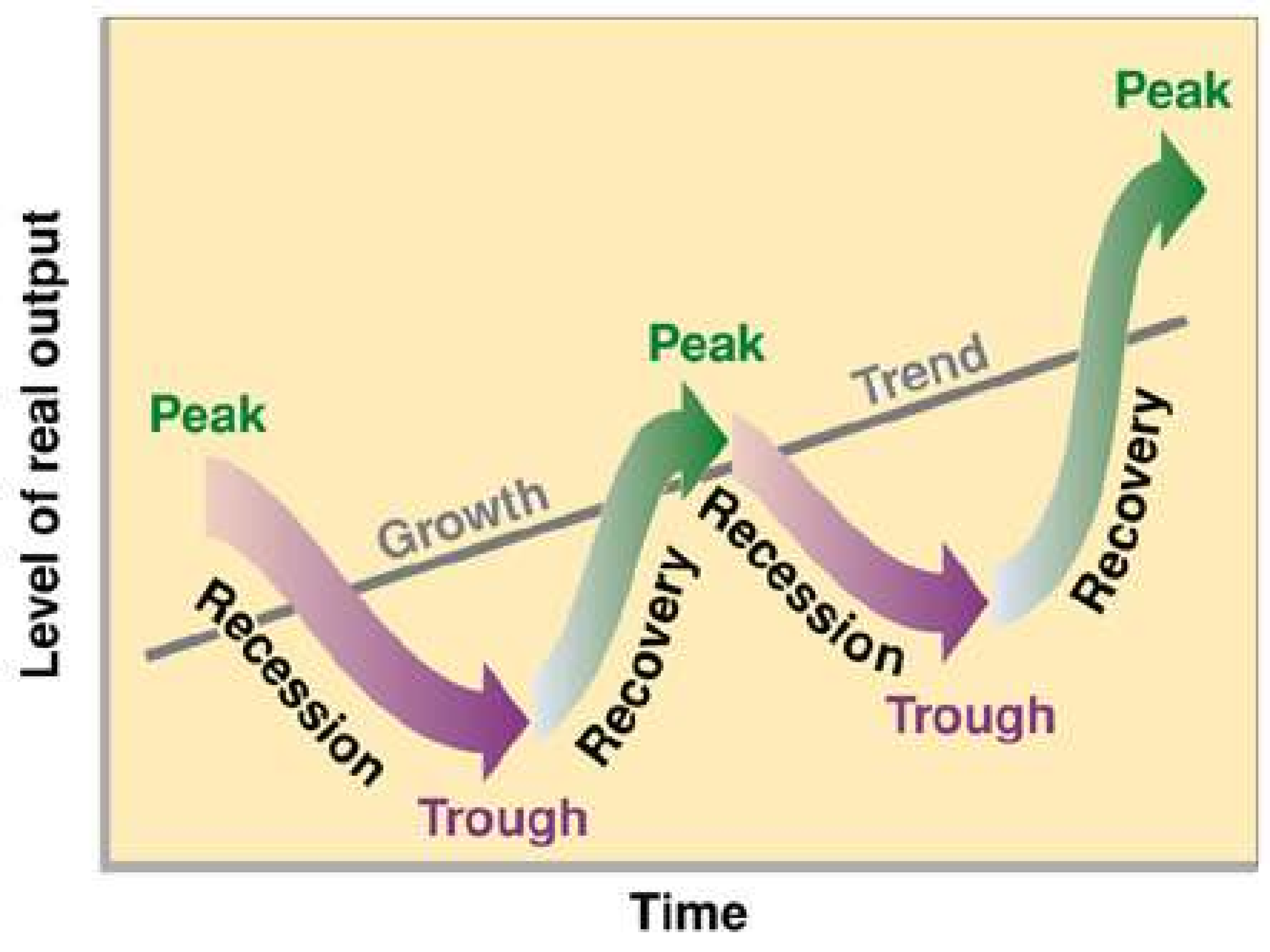

LRAS
GDP Price Deflator
Real GDP

SSEMA1_e

- **Define the stages of the business cycle, as was recession and depression.**

Business Cycle

- Ups and downs consisting of four parts
- Trough, expansions (recovery), peak, contraction



Peak
Peak
Peak
Trend
Growth
Recession
Recovery
Recession
Recovery
Trough
Trough
Level of real output
Time

Expansion to Recovery

- The economy is growing leading to a recovery because this growth often occurs after a less prosperous period

- **Gov’t spending spending programs, corporate tax breaks, increased investments or even a war increased demand for production can lead to a recovery.**

Peak to prosperity.

- Production is high, low unemployment, and wages increase. The peak only last for a little while as the economy comes down it enters…….

Contraction===Recession

- Fall in production
- High Unemployment,
- Rising Interest Rates
- Declining profits
- Slowdown in capital investments
- Demand falls as consumers stop buying goods

- **Business sell less…they make less**
- **Stop hiring**
- **Lay off employees… increasing unemployment rates**
- **….if this occurs for more than six months the economy is experiencing a recession**

Recession

- A decline in the nation’s GDP and/or negative economic growth for a period of more than six-eight months. Eventually the economy hits it lowest point…a Trough.

Trough

- High Unemployment
- Low Economic Production
- Falling Stock Prices
- If it continues over a long period of time the economy can slip into a …..

Depression

- **Is an extended period of time in which a nation's economy slows severely, causing hardship for households, businesses and the government.**

SSEMA1_f

- **Describe the difference between the national debt and government deficits.**

National Debt

- **Each time the government borrows money it adds to the national debt, the total amount of money owed by the federal government.**
- **Is the sum of all past deficits plus interest.**

Government Deficits

- **When the government spends more money in a fiscal year than it has brought in**

SSEMA2

- **The Student will explain the role and function of the Federal Reserve System**

In Plain English!

- **http://www.federalreserveeducation.org/resources/IPE/intro.htm**

- http://www.federalreserveeducation.org/

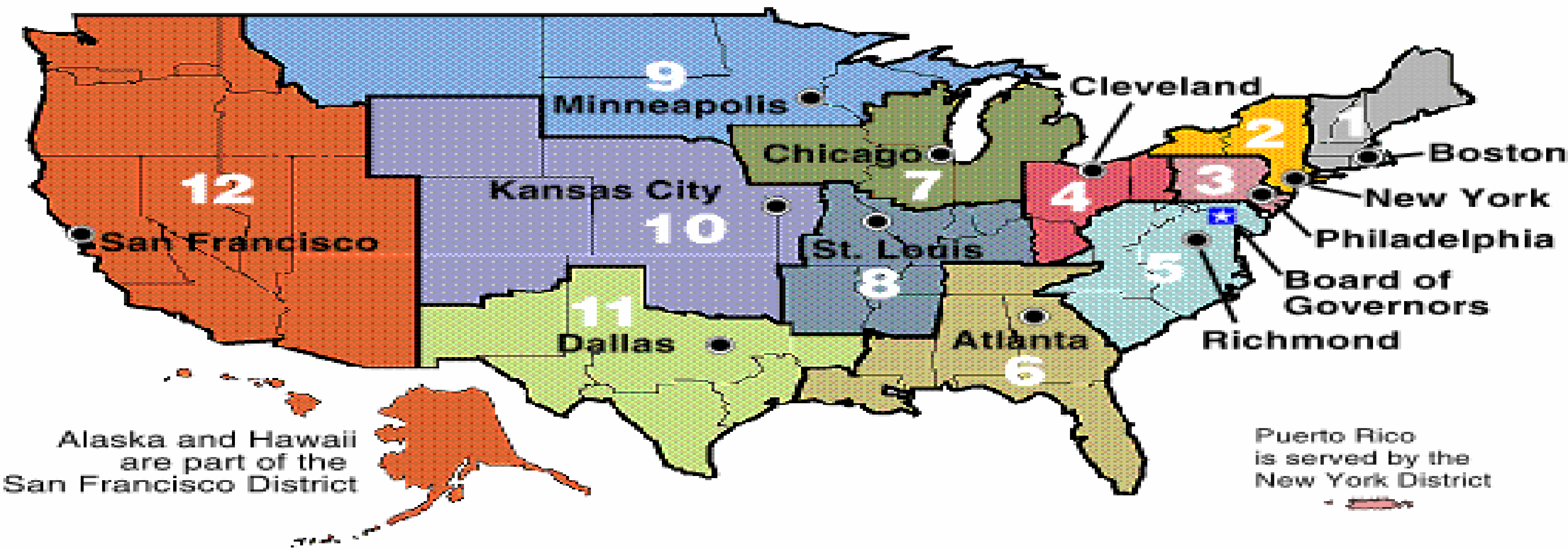
SSEMA2a:

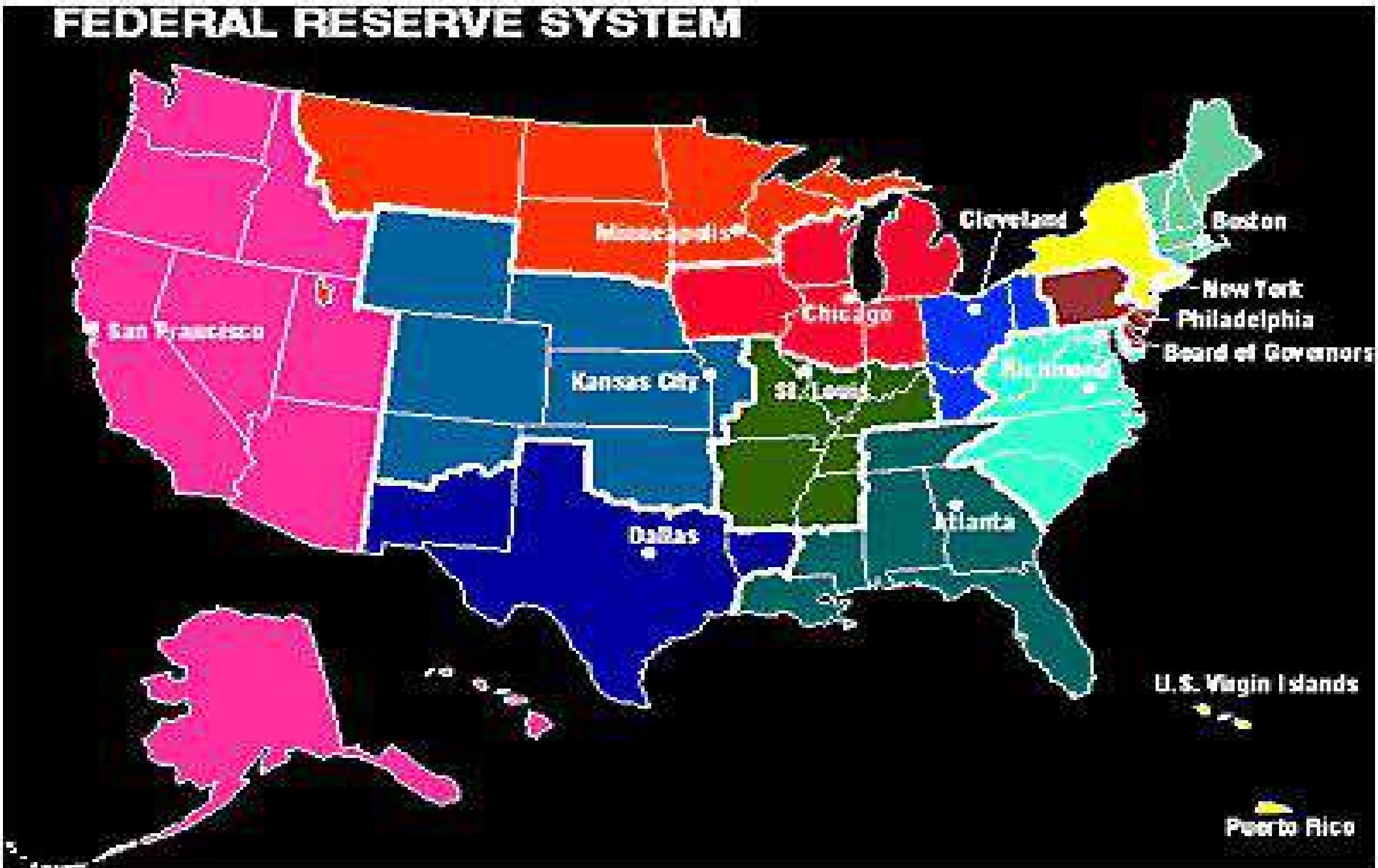
- **Describe the Organization of the Federal Reserve System**

- **“The Fed” was established in 1914. To set Monetary Policy, in order to promote economic growth and full employment and to limit the impact of inflation and recessions.**

- **Make and enforce rules about what banks can and cannot do.**
- **Control *Reserves: cash available for withdrawals, rather than being invested. Bank reserves are held by the Fed itself and transferred to individual banks as needed.***

- **A system of 12 banks in different regions of the nation, each of which prints paper currency called *Federal Reserve***




FEDERAL RESERVE SYSTEM
San Francisco
Kansas City
Dallas
St. Louis
Chicago
Atlanta
Cleveland
Boston
New York
Philadelphia
Board of Governors
U.S. Virgin Islands
Puerto Rico

- **The Federal Reserve System is run by a Board of Governors, who are appointed by the U.S. President.**

Federal Open Market Committee (FOMC)

- (Decides The Monetary Policy of the Fed)
- Holds the most power in regards to day to day monetary policy.

SSEMA2b

- **Define Monetary Policy**

- **Decisions of the Federal Reserve System and determine and/or regulate the money supply in the economy**

SSEMA2_c

- **Describe how the Federal Reserve uses the tools of monetary policy to promote <u>price stability</u>, <u>full employment</u>, and <u>economic growth</u>**

Price Stability

- **The fed creates policies that help stabilize prices in the market and try to prevent inflation, stagflation results that can lead to a recession**

Full Employment

- All individuals that are actively seeking employment have a job or occupation. The fed helps in this process by lower interest rates and the discount rate to help businesses hire more people in the market.

Economic Growth

- If there is more money circulating in the economy by the Fed's policies, it can help promote growth thoughtout the entire economy.

Characteristics of Money

- **Any type of currency must be portable, durable, dividable, and limited in its availability**

Open-Market Operations

- (The sale or purchase of U.S. treasury bonds) to control the flow of money…loaning money to the gov't

bonds a.k.a securities

- ***Bonds*- document issued by the gov't for which a person pays a certain price now, in exchange for a higher fixed amount, called face value, later. (takes money out of the market).**

- **When The Fed sells securities (bonds), it lowers the money supply in hopes to fight inflations.**
- **In the event of a recession the Fed will buy treasury bonds on the open market and congress will cut taxes.**

- **When the feds sell securities, bank reserves of money decrease as households and businesses purchase bonds rather than save their money in banks.**

- Feds buy securities it is increasing the supply of money back into the economy, This causes interest rates to drop, spending increases, price level with increase, and more money is pumped into the economy.

Regulating Money Supply…

- In a recession the Feds buy government securities and lower the discount rate.
  - *Discount Rate-* the interest rate it (gov't) charges to other banks to lend them money.

SSEMA3

The student will explain how the government uses fiscal policy to promote price stability, full employment, and economic growth.

- **A. Define Fiscal Policy**
- **B. Explain the government’s taxing and spending decisions**


FIX-IT LIST: FISCAL POLICY
FULLY ACCOUNT FOR ALL COSTS IN THE BUDGET.
STICK TO THESE COSTS, WITH A VETO PEN IF NECESSARY.
BE READY TO WORK TOGETHER WITH THE OTHER PARTY TO REDUCE THE DEFICIT.
DON'T FORGET WHAT REALLY COUNTS.

A. Fiscal Policy

- **The federal government's decisions it makes about taxing and spending in order to promote economic growth and stability**

- **Any form of money the gov't takes in or spend falls under the fiscal policy umbrella**

Goal of Fiscal Policy

- **Price Stability**
- **Economic Growth**
- **Full Employment**

b. Taxing & Spending Decisions

- **Taxes- Revenue the government creates from individuals' working wages.**

- The Federal Reserve and Congress Both want to correct the economy the best combination in achieving this goal is through increasing government spending, sell treasure bonds, but taxes, and buy treasury bonds.