

# Intro to Macro Unit III (Acronyms & Symbols)

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# Intro to Unit III

- ◆ In Macro Unit III, we will ultimately employ the AD-AS model to explore how changes in in the economy and government policy affect real GDP, employment, and the price level.
- ◆ We will start building our model by taking a closer look at Consumption, since it is the largest component of GDP.

# AD

- ◆ Aggregate Demand
- ◆ A schedule or curve that shows the total quantity of goods and services demanded (purchased) at different price levels.

# AS

- ◆ Aggregate Supply
- ◆ A schedule or curve showing the total quantity of goods and services supplied (produced) at different price levels.

# GDP

- ◆ Gross Domestic Product
- ◆ The total market value of all final goods and services produced annually within the boundaries of the United States.

# Y

## ◆ National Income

- ◆ Economists often use output and income interchangeably, because whatever is spent on a product (output value) is also the income of the people producing it.

# DI

- ◆ Disposable Income = the sum of the incomes of all the individuals in the economy after all taxes have been deducted and all transfer payments have been added.
- ◆  $DI = Y - \text{Taxes} + \text{Transfers}$
- ◆ Disposable Income is the income available for personal consumption expenditures and personal saving.

# S

## ◆ Saving

- ◆ Disposable income not spent for consumer goods.
- ◆ We can do two things with our disposable income...spend it (C) or save it (S). So,  $S = DI - C$ .



# APC

- ◆ Average Propensity to Consume
- ◆ Fraction of disposable income that households plan to spend for consumer goods and services.
- ◆  $APC = C / DI$

# APS

- ◆ Average Propensity to Save
- ◆ Fraction of disposable income that households save.
- ◆  $APS = S / DI$

# MPC

- ◆ Marginal Propensity to Consume
- ◆ Fraction of any CHANGE in disposable income spent for consumer goods.
- ◆  $MPC = \Delta C / \Delta DI$

# MPS

- ◆ Marginal Propensity to Save
- ◆ Fraction of any CHANGE in disposable income that households save.
- ◆  $MPS = \Delta S / \Delta DI$

# Now and Later

- ◆ Now think about it: Why must...

$$APC + APS = 1$$

$$MPC + MPS = 1$$

(Hint: Look at the Saving slide!)

- Going Forward: Understanding the terms and symbols that follow will be helpful as we continue Unit III.

$r$

- ◆ Expected Rate of Return
- ◆ The increase in profit a firm anticipates it will obtain by purchasing capital.
- ◆ Expressed as a percentage of the total cost of the investment activity.

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- ◆ Real Interest Rate
- ◆ The interest rate expressed in dollars of constant value.
- ◆ A percentage of the borrowed amount that is payment made for the use of borrowed money.

# Expenditures

- ◆  $C$  = Consumption
- ◆  $I_g$  = Gross Investment
- ◆  $G$  = Government Spending
- ◆  $X_n$  = Net Exports ( $X - M$ )
  - ◆  $X$  = Exports,  $M$  = Imports



# AE

- ◆ Aggregate Expenditures
- ◆ The total amount spent on final goods and services in the economy.