



Economics
Unit Three
Macroeconomics

Unit 3

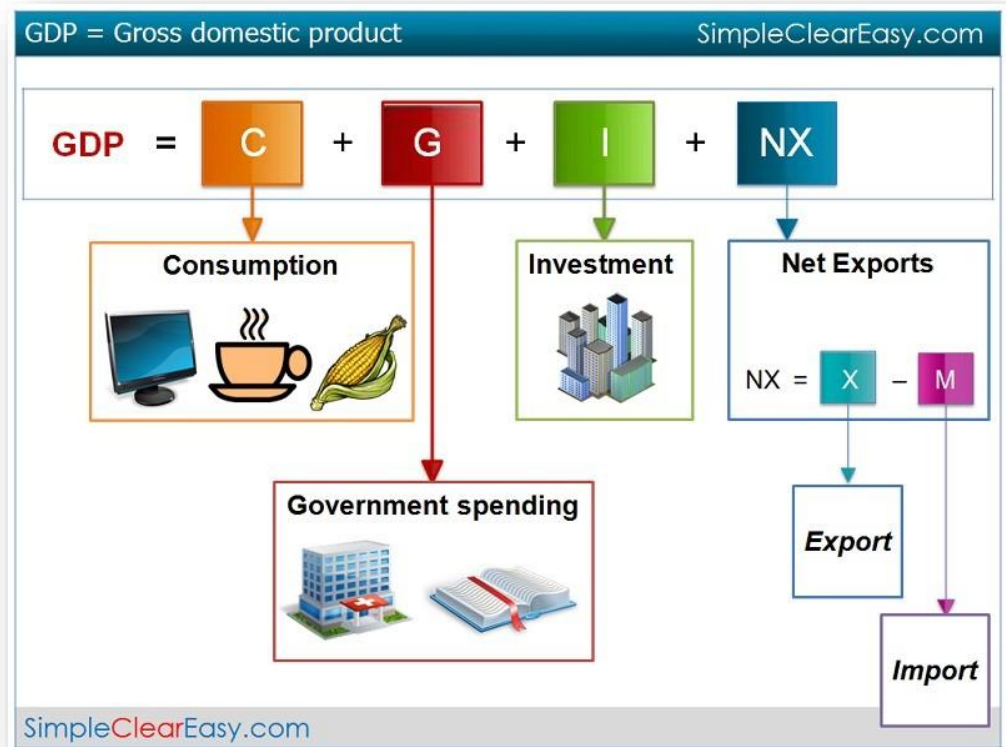
Big Idea #1

Measurements of Economic Activity

Gross Domestic Product

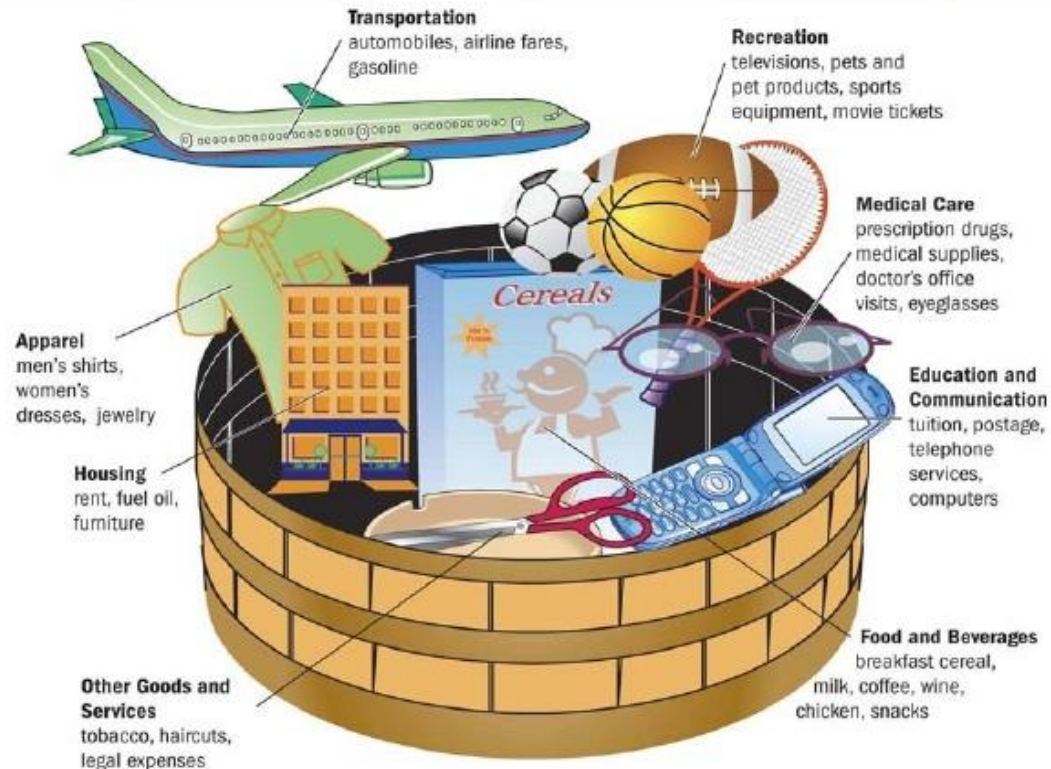
The total dollar value
of all final goods and services
produced within a country
during one calendar year.

Always want to use 'real' GDP which
has inflation taken out



Consumer Price Index

CPI Market Basket



Measures consumer prices by changes in the price level of market basket of consumer goods and services purchased by households.

Inflation - rise in consumer prices

Unemployment Rate

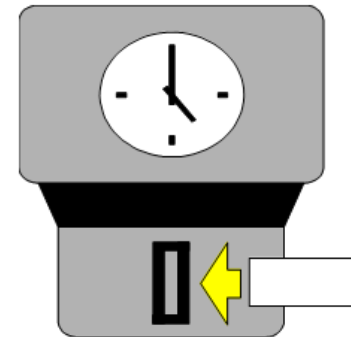
Measures how much of our productive resources (i.e. people!) are being used productively

To be considered
Unemployed.....

1. must be 16 yr old of age or older
2. must have been currently looking for employment in past 4 weeks
3. still have not found a job

Measuring Unemployment

$$\text{Unemployment rate} = \frac{\text{unemployed}}{\text{labor force}} \times 100$$



Types of Unemployment

Structural

Results from industrial reorganization, often due to technological change rather than fluctuations in supply or demand.

Seasonal

Occurs when jobs are only available at certain times of the year. For example, Santa Claus impersonators.

Cyclical

Relates to the cyclical trends in growth and production that occur within the business cycle. When the business cycle is at its peak, cyclical unemployment is low.

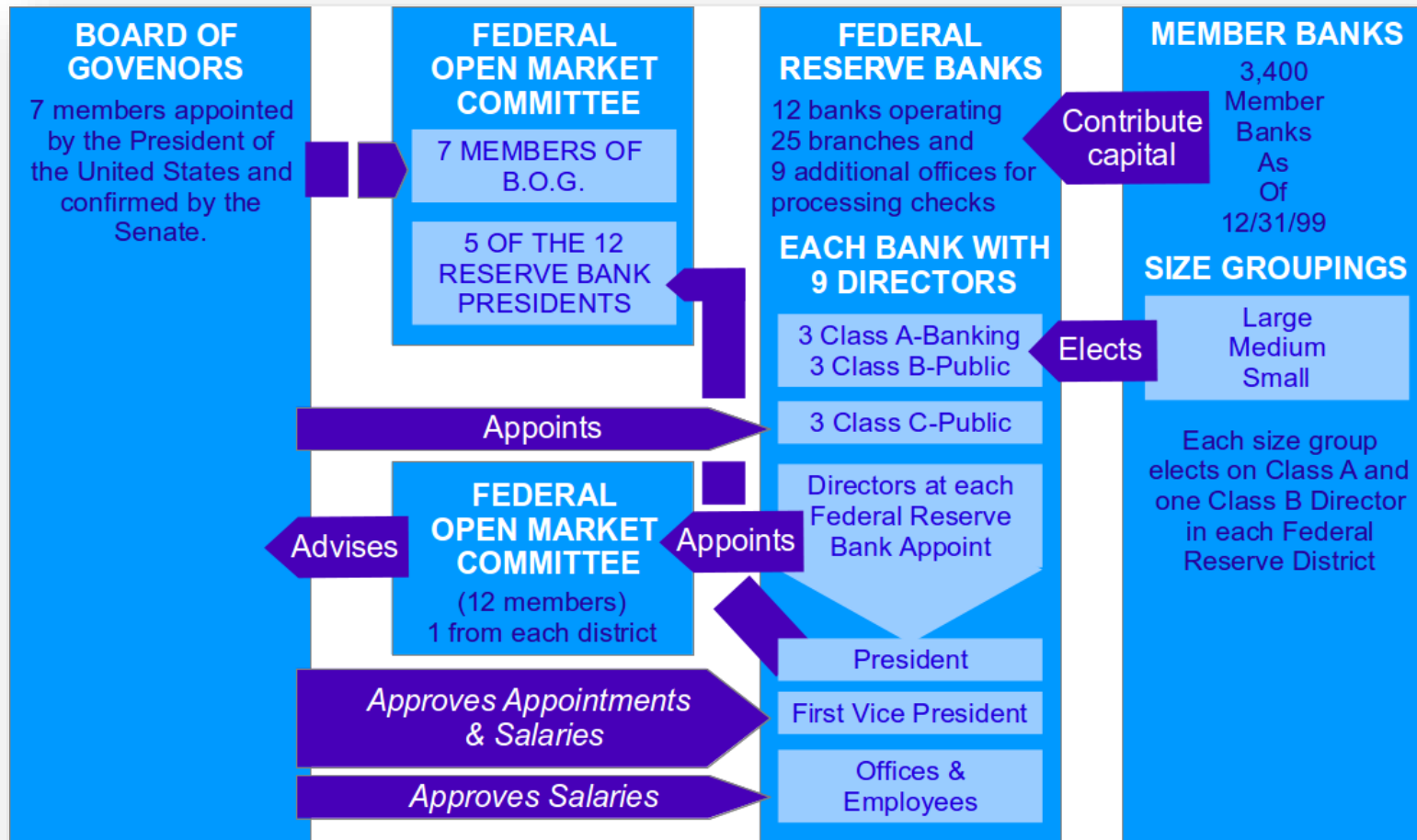
Frictional

Occurs when a worker moves from one job to another and spends time trying to find his or her ideal job. Exists even when there is full employment.

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Big Idea #2

The Federal Reserve and Monetary Policy



Source: Board of Governors of the Federal Reserve System

Summary of Monetary Policy Tools

Formal Tool	Fed Action	Effects on Economy	Money Supply
Open Market Securities	Buys gov't securities	Bank reserves increase; aggregate demand & production increases	Expands
	Sells gov't securities	Bank reserves shrink; aggregate demand decreases	Contracts
Discount Rate	Lowers discount rate	Encourages banks to borrow from the Fed; bank reserves increase	Expands
	Raises discount rate	Discourages banks to borrow from Fed; bank reserves decrease	Contracts
Reserve Requirement	Lowers the reserve requirement %	Banks hold fewer reserves & extend more loans; interest rates fall; Aggregate demand increases	Expands
	Raises the reserve requirement %	Banks hold more reserves & extend fewer loans; interest rates rise; Aggregate demand decreases	contracts

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Big Idea #3

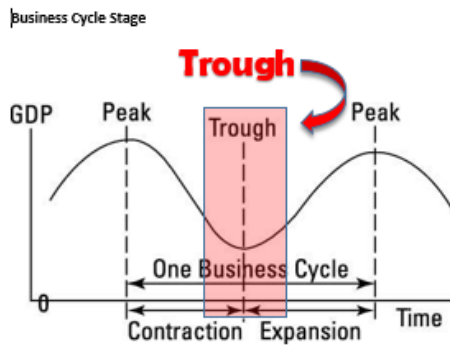
Fiscal Policy – Congressional Taxing and Spending

Fiscal and Monetary Policy Tools		
	Fiscal policy tools	Monetary policy tools
Expansionary tools	<ol style="list-style-type: none">1.increasing government spending2. cutting taxes	<ol style="list-style-type: none">1.open market operations: bond purchases2.decreasing the discount rate3.decreasing reserve requirements
Contractionary tools	<ol style="list-style-type: none">1.decreasing government spending2. raising taxes	<ol style="list-style-type: none">1.open market operations: bond sales2. increasing the discount rate3.increasing reserve requirements

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Big Idea #4

Business Cycle & it's Phases



Clue Words

Bottom, lowest, end of recession, beginning of recovery/ expansion

Ways to Describe It

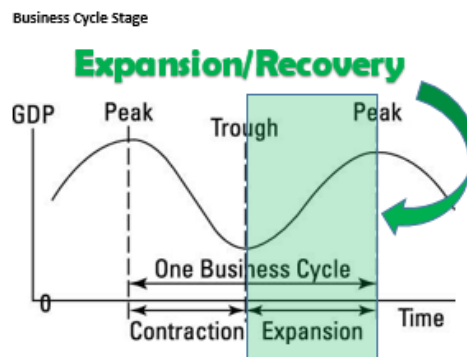
Lowest employment/highest unemployment – since demand is so low, companies have cut back on production and therefore, jobs.

Lowest GDP growth – lowest output/productivity

Lowest consumer spending – consumers are only buying necessities

Lowest consumer confidence – due to so many people without jobs

Lowest prices – so low that consumers are tempted to start buying again!



Clue Words

Expansion, recovery, increasing, progressing

Ways to Describe It

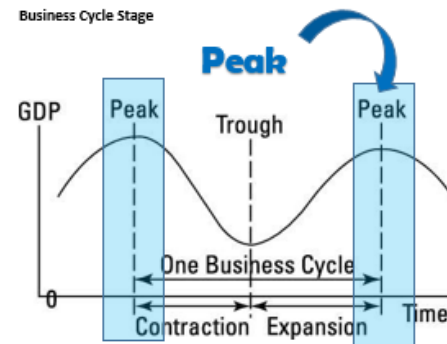
Increasing consumer spending – low prices tempt consumers to spend again

Increasing employment/decreasing unemployment – as consumers begin buying, demand increases and companies begin producing more...which means they need more workers

Increasing GDP growth – higher output/productivity

Increased consumer confidence in the economy – due to more jobs

Rising prices – as consumers begin buying more again, prices begin to rise



Clue Words

Highest, top, maximum, end of expansion/recovery, beginning of contraction

Ways to Describe It

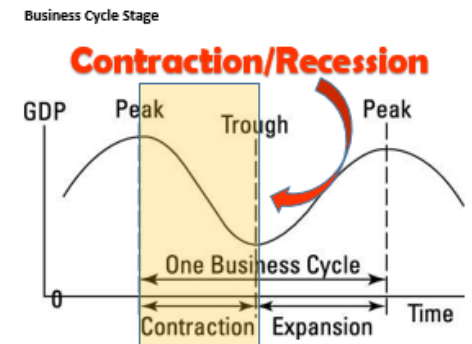
Highest/maximum consumer spending

Consumer confidence at highest level, but realizing the end of the expansion is near

Highest/maximum GDP growth – highest productivity/output

Highest employment/Lowest unemployment – companies are producing at maximum levels

Highest prices – prices so high that consumers begin to question whether they should spend the money, especially on high-ticket items (ex. Cars)



Clue Words

Declining, lower, reduction, downsizing, reducing, reduction

Ways to Describe It

Declining consumer spending

Lower employment/increasing unemployment – as demand decreases, companies lay off workers and reduce production

Declining GDP growth – due to lower production levels

Declining Consumer Confidence – as workers lose jobs

Decreasing Prices – companies have to lower prices to get people to buy