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# Macroeconomics (Quickstudy: Business)

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## MACROECONOMICS

Consolidated Material

### OVERVIEW

**ECONOMICS:** The study of how scarce resources are allocated among competing uses.

**MACROECONOMICS:** The study of economic aggregates such as national production and the price level.

**KEY ECONOMIC QUESTIONS INCLUDE:**

1. What is produced?
2. How is it produced?
3. Who gets what is produced?

**PRODUCTION POSSIBILITY FRONTIER:** The alternative combinations of final goods and services that could be produced in a given time period with all available but unused resources and technology.

1. Illustrates opportunity cost: Choosing more production of one good requires a reduction in the production (but opportunity) of one or more other goods.
2. Law of increasing opportunity cost: Moving down the curve, more of one good is produced using ever larger amounts of the alternative good.

This economy produces only two goods (X, Y). Points on the curve (A, B, C) represent different combinations of the two goods when all resources are used (full employment of resources). If the allocation is made the curve, some resources are not used or used inefficiently.

**Explanation:** This concave production possibilities frontier shows the law of increasing opportunity cost. Moving down the curve means the economy is producing more of X and less of Y. At point A, the economy produces 14 units of Y and zero X. At point B, 100 units of X are now produced. To do this, one unit of Y is given up. To produce the next 100 units of X, 10 units of Y have to be given up (point C). To produce another 100 units of X, 10 units of Y have to be given up (point D). It becomes more and more expensive to produce the same units of X.

**Expanding Frontier:** Increases in resources and technological advances.

**MARKET MECHANISMS ARE MADE:**

1. Market mechanism: Market-determined prices who supplies and shortages, and owners allocate resources to take advantage of higher resource payments.
2. Command economy: Central authority allocates resources to achieve goals.
3. Mixed Economy: Uses both market and non-market signals to allocate goods, services and resources.

### SUPPLY & DEMAND

#### DEMAND

**Demand Curve (Stochastically):** A curve (table) showing the quantities of a good or service a consumer is willing and able to buy at alternative prices given constant income, tastes, related prices, and number of buyers.

**Law of Demand:** Income in price (P) causes increase in quantity (Q) demanded.

**Change in quantity demanded:** Caused by own price change and results in movement along the demand curve.

**Change in demand:** Change in tastes, price of related goods, income, increase in number of buyers, expectations on prices and availability after planned consumption at all prices, shifting the demand curve to the right (increase) or left (decrease).

#### SUPPLY

**Supply Curve:** A curve (table) showing the quantities of a good or service a seller is willing and able to sell at alternative prices at a given cost of production determined by constant input prices, technology and number of sellers.

**Change in quantity supplied:** Caused by own price change and results in movement along the curve.

**Law of Supply:** Increase in price (P) causes increase in quantity (Q) supplied.

**Change in supply:** Change in cost of production, technology, price of other produced goods, number of sellers alter planned sales at all prices, shifting the supply curve to right (increase) or left (decrease).

### MARKET EQUILIBRIUM

**Equilibrium:** When price is established where quantity demanded (P<sub>D</sub>) = quantity supplied (Q<sub>S</sub>).

**Properties of Equilibrium:**

1. P = P<sub>D</sub> = P<sub>S</sub> (surplus)
2. P > P<sub>D</sub> (shortage)
3. P = P<sub>D</sub> = P<sub>S</sub> (stable)

**Price Controls:**

1. Ceiling: Below equilibrium = shortage
2. Floor: Above equilibrium = surplus

### CHANGE IN EQUILIBRIUM

**Supply Shifts:**

Supply Increase: P<sub>S</sub> ↓, Q<sub>S</sub> ↑

Supply Decrease: P<sub>S</sub> ↑, Q<sub>S</sub> ↓

**Demand Shifts:**

Demand Increase: P<sub>D</sub> ↑, Q<sub>D</sub> ↑

Demand Decrease: P<sub>D</sub> ↓, Q<sub>D</sub> ↓

### ECONOMIC AGGREGATES

**GROSS DOMESTIC PRODUCT (GDP):** The total market value of all final goods and services produced in a country in a given year.

**GROSS NATIONAL PRODUCT (GNP):** The total market value of all final goods and services produced by the country's citizens in a given year.

**GDP:** Includes all earnings in the U.S. plus earnings of U.S. nationals abroad. **GNP:** Includes all earnings of U.S. nationals abroad.

**MEASURING AGGREGATE OUTPUT**

1. Value Added Concept = value of production less value of material inputs (national gross value)
2. Income Method = Wages and Salaries + Rent + Profits + Interest + Adjustments
3. Expenditure Method (sum of expenditures on final goods and services) = Private Consumption (C) + Gross Private Domestic Investment (I) + Governmental Purchases (G) + Exports (X) - Imports (M) = C + I + G + X - M

**National Income Accounting:**

1. Net Domestic Product (NDP) = GDP less Capital Consumption Allowance
2. National Income (NI) = NDP - Indirect Business Taxes + Subsidies
3. Personal Income (PI) = NI - Corporate Taxes + Retained Earnings + Social Security Taxes + Transfer Payments
4. Disposable Income (DI) = PI - Personal Taxes

**GDP Shortcomings:**

1. Factors not valuations measured:
  - a. Underground economy, household production
  - b. Improved quality
  - c. More leisure, although implying lower hours of work and lower output can lead to greater productivity.
2. Certain goods and services counted as personal or property destruction (E.g. Alcohol, tobacco, guns, etc.) instead of production "bad" instead of goods.
3. Measure of Economic Welfare (MEW) = GDP less "BADs"

### NOMINAL GDP VS. REAL GDP

**REAL GDP = NOMINAL GDP deflated by the Price Index**

**Assume only 2 goods are produced in an Economy (goods A and B):**

YR1			
PRICE	QTY	GDP	
GOOD A	\$2	100	\$200
GOOD B	\$3	78	\$234
<b>NOMINAL GDP</b>			<b>\$434</b>

  

YR2			
PRICE	QTY	GDP	
GOOD A	\$4	88	\$352
GOOD B	\$3	78	\$234
<b>NOMINAL GDP</b>			<b>\$586</b>

**Using Nominal GDP, it shows an increase in year 2. To know if productivity really increased in year 2, Real GDP increases have to be used.**

1. Using YR1 as the base year, **NOMINAL GDP = REAL GDP = \$434**
2. YR1 PRICES WILL BE APPLIED TO YR2 QTY TO GET REAL GDP

YR2 Real GDP			
PRICE	QTY	GDP	
GOOD A	\$2	88	\$176
GOOD B	\$3	78	\$234
<b>REAL GDP</b>			<b>\$410</b>

Because REAL GDP > REAL GDP, productivity actually decreased.

### MEASURING PRICE LEVEL

**Price Index:** Average level of prices in a given year relative to the average level of a fixed basket of goods reported as a percentage of base period cost.

**GDP Price Index or GDP Inflation:** A measure of the average price of all goods and services.



## Synopsis

A better understanding of how the economy works in general is crucial for established businesses, start-ups and students of economics. This 3-panel (6-page) guide, jam-packed with up-to-date information, examines macroeconomics in great detail.

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## Customer Reviews

I have about two dozen BarCharts on various topics and this is one of my favorites. I use it for a quick refresher of major topics and concepts. I also have the micro econ one which is excellent too. But macro is more my thing rather than the theory of the firm. Even if you never read a real econ text if you just memorized this you'd probably be in pretty good shape. It's mainly useful for me today as an amateur investor needing a quick review of an economic principle relevant to my stock investing and applied economics hobby. Also every citizen needs at least a basic foundation in econ because both political parties slant the economic data and explanations in their direction so the only defense is being able to read and think critically yourself.

This just arrived yesterday. My class starts tomorrow, so that worked out well. It's very much what I expected, punched to fit into my three ring notebook, easy to read, well organized, etc. Looks like a good reference tool for helping me get through Macroeconomics this summer.

If you are taking a macroeconomics class, this could be helpful. It will have more information than you actually need for any one class. But it is handy for having formulas, etc available when studying.

This chart has the same issue as the micro one, which is really a non-issue. The information on it is great, but my ECON textbook went in a different order than this chart. If you want to use this as a quick reference before a test or quiz, make sure you familiarize yourself with the differences between this and your textbook and where the info is. Don't rely on it alone just in case it words things differently, as for example, certain variables used terms that were different than what we used in our text/tests.

This is a good tool to point what are the main ideas or arguments such as the graphs and charts and how do slopes shifts. But the details are missing such as in the case of foreign exchange markets or how a currency affects the country. All those tiny details that will help you wiggle with the tools provided. Overall, Great job, in putting it all together. Oh something I hate from the chart is the 3 punch holes; because the holes have cut pieces of some information. Please guys don't punch anymore, let us do it if we want to.

I gave this item a five star rating because it is a great tool. I liked it because it arrived quickly and was in excellent condition! I recommend to all who are taking or will be taking a macroeconomics class. You won't ever have to carry around a large binder full of notes.

I have several of these Quick studies, they have been an asset to my education.

Good set of "notes", it has what I am currently learning, so its been very helpful so far.

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