Section 2: Macroeconomics

hl	sl			
			2.1 The level of overall economic activity **Big Questions:** 1. **Explain the key macroeconomic objectives of government?** 2. **A) How do you draw the Macroeconomy? B) In measuring national income why is: Income=Output= Expenditure** 3. **Why is real GDP a key macroeconomic indicator?** 4. **Discuss the use of national income statistics in terms of assessing government management of a macroeconomy?** **See Blink/Oxford pp163-165** **Note: use 1or 2 99's for these 4 questions**	

Economic activity

hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading
		The circular flow of income model	• Describe, using a diagram, the circular flow of income between households and firms in a closed economy with no government. • Identify the four factors of production and their respective payments (rent, wages, interest and profit) and explain that these constitute the income flow in the model. • Outline that the income flow is numerically equivalent to the	

			expenditure flow and the value of output flow. • Describe, using a diagram, the circular flow of income in an open economy with government and financial markets, referring to leakages/ withdrawals (savings, taxes and import expenditure) and injections (investment, government expenditure and export revenue). • Explain how the size of the circular flow will change depending on the relative size of injections and leakages.	
		Measures of economic activity: gross domestic product (GDP), and gross national product (GNP) or gross national income (GNI)	• Distinguish between GDP and GNP/GNI as measures of economic activity. • Distinguish between the nominal value of GDP and GNP/GNI and the real value of GDP and GNP/GNI. • Distinguish between total GDP and GNP/GNI and per capita GDP and GNP/GNI. • Examine the output approach, the income approach and the expenditure approach when measuring national income. • Evaluate the use of national income statistics, including their use for making comparisons over time, their use for making comparisons between countries and their use for making conclusions about standards of living. • Explain the meaning and significance of "green GDP", a measure of GDP that accounts for environmental destruction.	
		Measures of economic activity: gross domestic product (GDP), and gross national product (GNP) or gross national income (GNI)	• Calculate nominal GDP from sets of national income data, using the expenditure approach. • Calculate GNP/GNI from data • Calculate real GDP, using a price deflator.	

The business cycle

		Short-term fluctuations and long-term trend	• Explain, using a business cycle diagram, that economies typically tend to go through a cyclical pattern characterized by the phases of the business cycle. • Explain the long-term growth trend in the business cycle diagram as the potential output of the economy. • Distinguish between a decrease in GDP and a decrease in GDP growth.		

TOK

Theory of knowledge: potential connections

What is the empirical evidence for the existence of the business cycle? How do we decide whether this evidence is sufficient?