

Syllabus Items: 78-81

See Webnote 507 for reading schedule

Items: HL only: 80

2.1: 7 Big Ideas



What are the key macroeconomic Indicators – some of the key ‘health checks’ for a macroeconomy?

1. Gdp....per capita....ppp \$
2. GNI.....GNP
3. Inflation index ...CPI (consumer price index) + PPI (consumer price index)
4. Unemployment rate
5. Balance of payments e.g. Trade deficit

3.1 Big Ideas

Big Idea

2

Know the simple macroeconomic circular flow of income. 3 Injections (j) and 3 leakages (L)

- Key Diagrams
- Circular flow of income

‘Simple’ version

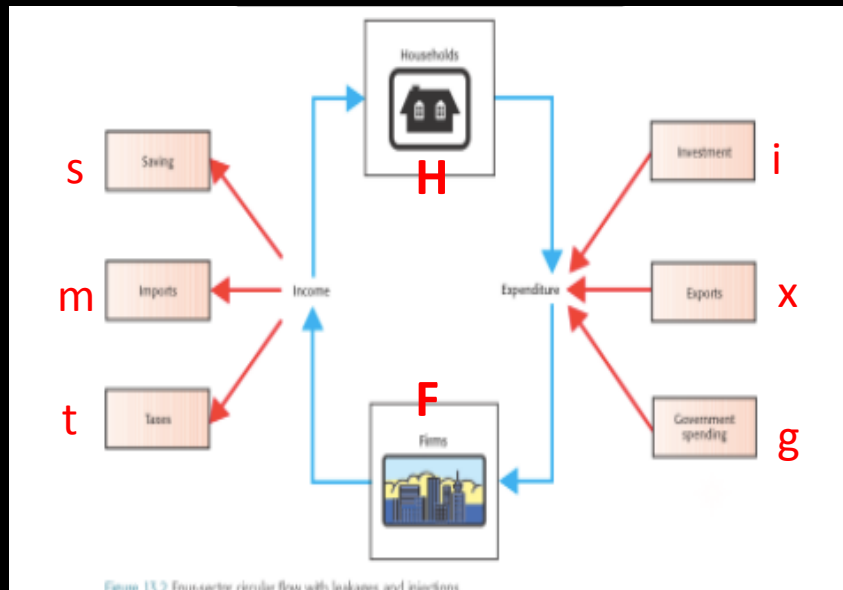
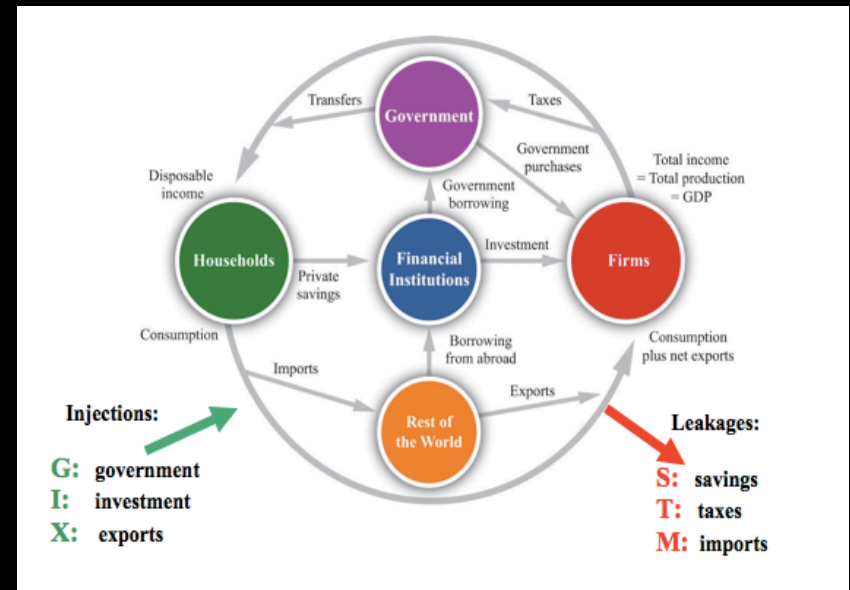


Figure 15.2 Four-sector circular flow with leakages and injections

Detailed version



2.1 Big Ideas

Big Idea

3

What is the formula for a macroeconomy?

National Income =

Income = Output = Expenditure

e.g. AD (= aggregate demand/total expenditure in the economy)

=

$$C + I + G - (X - M)$$

2.1 Big Ideas

Big Idea

4

5 Macroeconomic objectives of government (webnote 211)

What Objectives for Gov.?

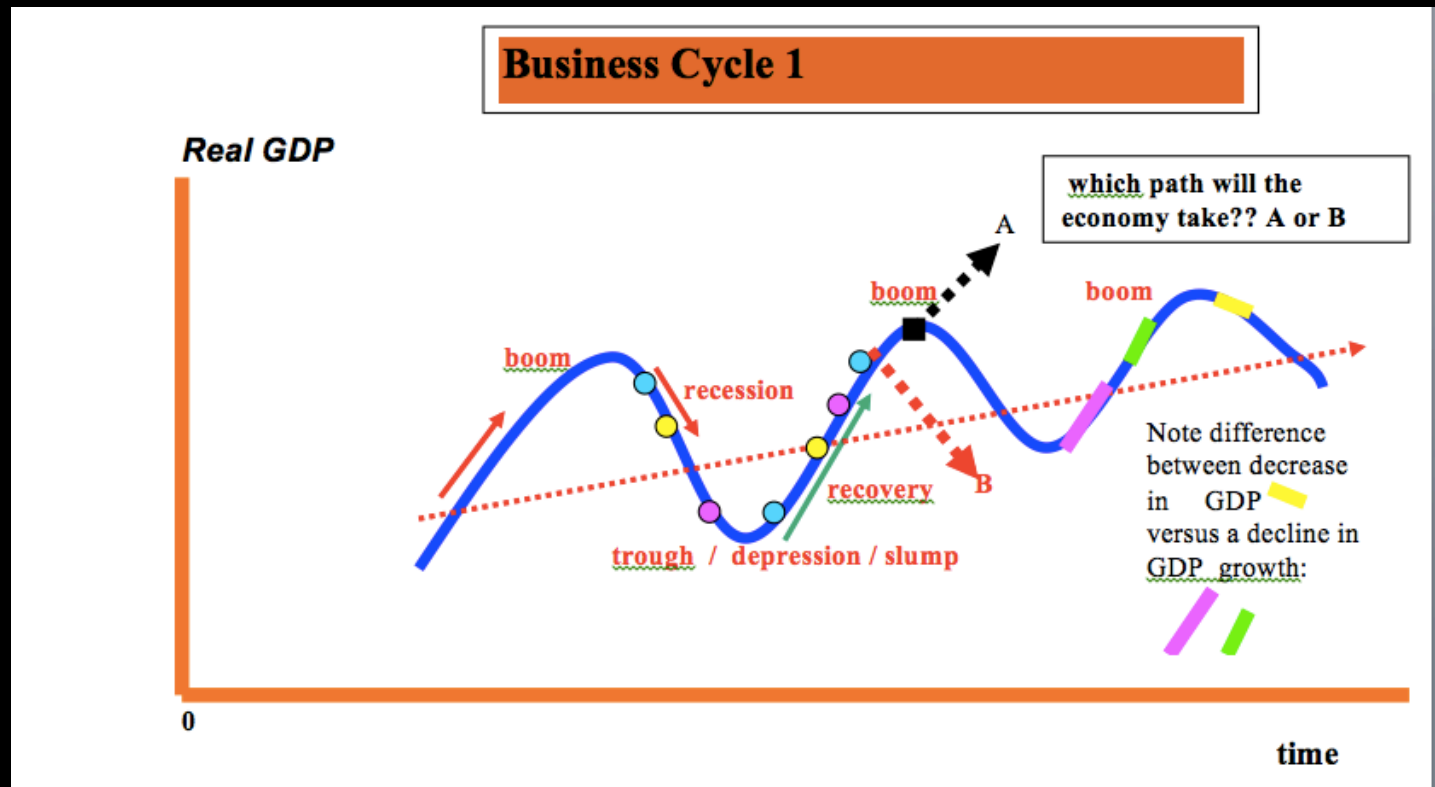
Economic objectives:

- 1) **Economic growth**
- 2) **Employment**
- 3) **Inflation- stable prices**
- 4) **Balance of trade +BoP**
- 5) **Economic development/
Rising standard of living/
Redistribution of wealth**

Others:

- **Regional development**
- **Balanced budgeting**
- **Stable currency**

Business cycle shows how macroeconomy (in terms of real GDP) performs over time



Gdp deflator reduces nominal gdp to real gdp multiplying by a fraction (fraction includes inflation rate). In example below the inflation rate is 20% therefore nominal gdp is reduced by 20%

➤ **Calculating real GDP from nominal GDP**

Suppose GDP of USA in 1993 was \$627 m showing an increase of 56 % over 5 years. Nominal figure will not take inflation into account. Inflation is 20 %.Using inflation as a deflator then the figure would be adjusted as follows:

$$627\text{m} \times \frac{100}{120} = 522\text{m of real GDP}$$

Know these key terms below

- Definitions; Know the following:

1. GDP (employment+ domestic economic activity)
2. GDP deflator (webnote 213)
3. GNP
4. GNI
5. 'Green' GDP — environmental sustainability
6. Gdp growth vs Gdp 'decline in growth'

IBQ

HL1 + SL1

2014 May SL

3. (a) Explain the income, output and expenditure methods used to measure real gross domestic product (GDP). [10 marks]
- (b) Discuss the usefulness of real GDP per capita as a method of measuring the living standards of a country's population. [15 marks]

M14/3/ECONO/SP1/ENG/TZ2/XX

2.1 Big Ideas

Big Questions for webnote 99:

- **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?**