**ECON 2500 - Principles of Macroeconomics** Page 1

Economics: elements of definition

Macroeconomics

Microeconomics

Scarce Resources:

Opportunity cost:

Constant Cost

Increasing Costs

Production on Possibilities Curve:

Determinants

Impact of Trade

Economic Systems:

Command

Market

Tradition

Fundamental Questions:

What

How

For Whom

What does circular flow diagram reflect?

Product Market

Resource Market

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Law of Demand: determinants

Law of Supply: determinants

Equilibrium

Important qualifications/controls

Elasticity

Price-elasticity demand: f = % 🛆Q absolute value

% 🛆P revenue test

Elastic

Inelastic

Unitary

Price elasticity of supply: Es = % 🛆Qz

% 🛆 Pz

Cross elasticity of demand: E = % 🛆 Qx

Cross % > Py

Substitute goods Q &P move in same direction

Complimentary goods Q&P move in opposite direction

Income elasticity of demand: E = % 🛆 Q

% 🛆 Y

Normal good – Q increases with increases in income

Inferior good – Q decreases with increases in income

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Public Goods and Externalities

Demand:

Supply:

Consumer Surplus

Producer Surplus

Loss of efficiency

Private goods:

Public goods:

Ideally:

Negative externalities:

Positive externalities:

Macroeconomics:

Real GDP

UNE

Inflation

S vs. I

Present vs. Future C

Uncertainty caused by

Are prices:

Sticky?

Flexible?

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Measuring output and income

Measure in monetary terms

Intermediate goods and value added

Danger from double counting

Monetary transactions not included

Private transfer

Stock market transitions

Public transfer payments

Expenditures (final goods)

C

I

G

X-M

Gross vs. net I

Income approach

1. Wages, salaries plus supplements
2. i
3. Rent estimated for owner occupied housing
4. Proprietors income
5. π

Other points

1. Net foreign factor income
2. Statistical adjustment
3. National Income
4. CCA – how to calculate

Limitations of GDP (Limited use/w)

Nonmarket activities

Leisure

Product quality

Underground

Environment/externalities

Well-being and distribution of output

Economic growth: measures/sources Page 5

Per capita

Institutional factors

1. Property rights
2. Patents/copyright
3. Efficient financial markets
4. Education
5. Trade in a competitive system

Supply Factors

Natural resources

Human capital

Capital stock

Technology

Economics of scale

Demand of output essential

Shifts of production possibilities curve

Is growth sustainable

Business cycles: phases

Causes:

Irregular innovation

Productivity changes

Monetary factors

Political factors

Financial instability

Unemployment (>16)

Frictional

Structural

Cyclical

Who are unemployed?

Inflation (CPI)

Demand-Pull

Cost-Push

Real vs. nominal

Hurt by inflation Redistributive effects Page 6

Fixed income

Savers

Creditors

“Helped”

Fixed - income receivers

Debtors

Inflation: cost-push/demand pull

Hyperinflation

Income vs. consumption or income vs. saving: graphs

APD = c/4

APS = s/y

MPC = 🛆c

🛆y

MPS = 🛆s

🛆y

MPC + MPS = 1

Determinants of: shift vs. move along

C = f (wealth, borrowing, expectations, real i)

I and i rate

Expected return

I demand: shifts caused by

1. Acquisition, bus taxes, operating costs
2. Business taxes
3. Tech 🛆
4. Stock cap and failure

Instability of I caused by:

1. Expectations
2. Durability of capital
3. Irregularity of innovations
4. Variability of profits

Multiplier = \_ 1\_\_\_ = \_\_\_1\_\_\_

1-MPC MPS

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AD/AS

AD and Price Level (negative slope)

Wealth effect

Interest-rate effect

Foreign purchase Effect

AD form Aggregate Expenditures

(from Aggregate Expenditures)

Determines of A D 🛆n Shift of A D

1. 🛆 C
2. 🛆 I
3. 🛆 G
4. 🛆 Xn

Aggregate Supply: three ranges

Shifts from:

1. 🛆 input prices
2. 🛆 productivity
3. Legal-institutional environment