**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