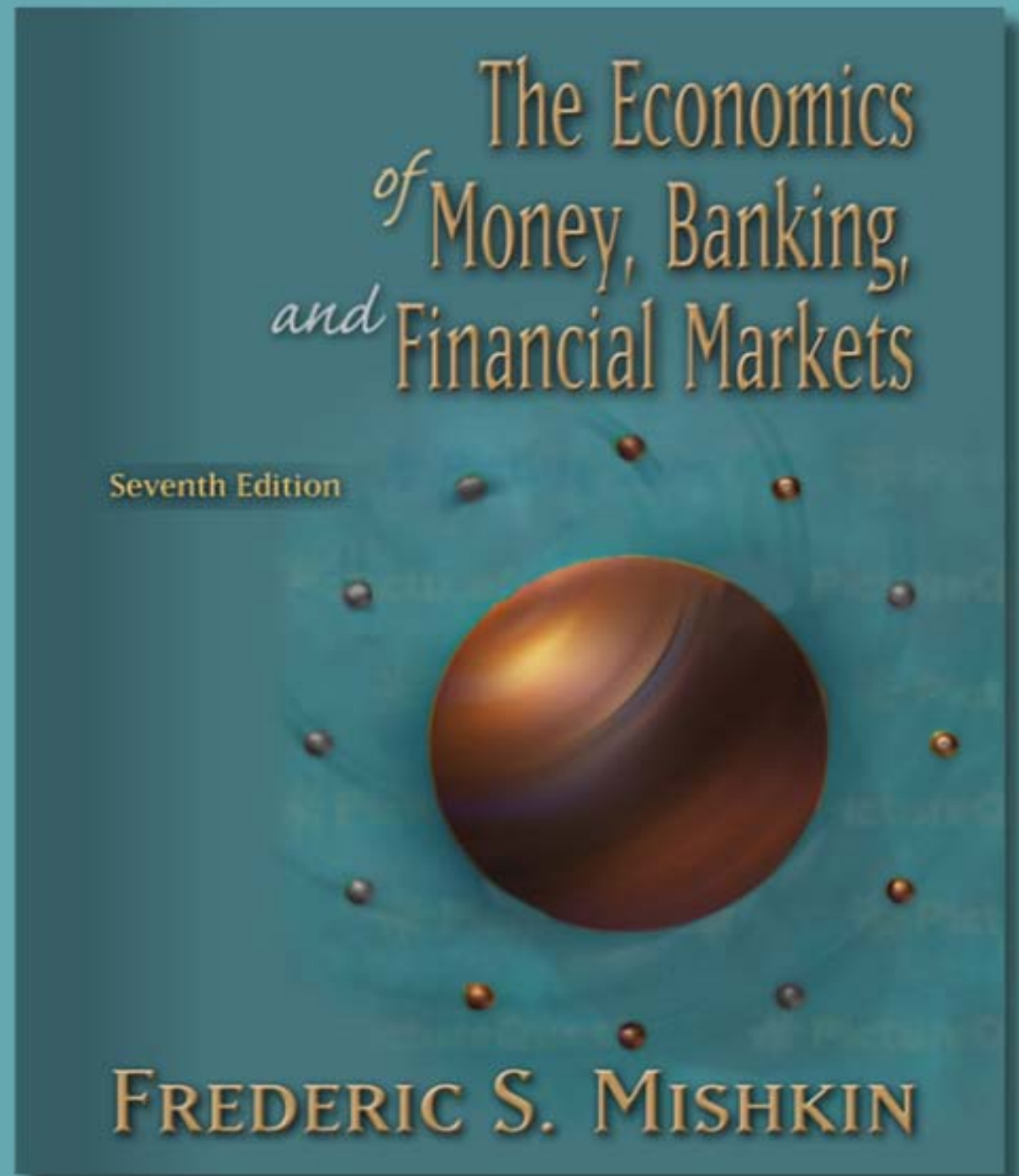


# Essex EC248-2-SP Class 2

## Revision of Important Concepts from Macroeconomics with Applications

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# Macroeconomic Definitions

## **Aggregate Output**

Gross Domestic Product (GDP) = Value of all final goods and services produced in domestic economy during year

## **Aggregate Income**

Total income of factors of production (land, capital, labor) during year

## **Distinction Between Nominal and Real**

Nominal = values measured using current prices

Real = quantities, measured with constant prices

## **Aggregate Price Level**

$$\begin{aligned}\text{GDP Deflator} &= \frac{\text{nominal GDP}}{\text{real GDP}} \\ &= \frac{\$10 \text{ trillion}}{\$9 \text{ trillion}} = 1.11\end{aligned}$$

Consumer Price Index (CPI) = price of “basket” of goods and services

# Levels and Growth Rates

## Growth Rate

$$\text{Growth Rate} = \frac{x_t - x_{t-1}}{x_{t-1}} \times 100$$

$$\text{GDP Growth Rate} = \frac{\$9.5 \text{ trillion} - \$9 \text{ trillion}}{\$9 \text{ trillion}} \times 100 = 5.6\%$$

$$\text{Inflation Rate} = \frac{113 - 111}{111} \times 100 = 1.8\%$$

# Web Applications

- Mishkin (2004), p. 19
  - Exercise 1: collecting and graphing data from the Web
    - DJIA: historical data
    - Go to <http://www.forecasts.org/data/index.htm>
    - Plot the time series in Excel (consult Mishkin, pp. 15-17)
  - Exercise 2: using a forecast of the Dow to calculate percentage changes over horizons of
    - 1, 3 and 6 months
    - Which of the forecasts is most reliable and why?