

23

An Introduction to Macroeconomics

AGENDA Thurs 1/21

- QOD #6: National Income
- GDP, Growth & Stability
- Partner Practice
- Team Teaching Schedule & ?s
- HW: pp 485-494 Q#2,4,7
 - Parent Syllabus Review (Google Form)

QOD #6: National Income

Suppose that the annual rates of growth of real GDP of Econoland over a five-year period were sequentially as follows: 3 percent, 1 percent, -2 percent, 4 percent, and 5 percent.

- a) What was the average of these growth rates in Econoland over these 5 years?
- b) What term would economists use to describe what happened in year 3?
- c) If the growth rate in year 3 had been a positive 2 percent rather than a negative 2 percent, what would have been the average growth rate?

QOD #6: National Income

- a) What was the average of these growth rates in Econoland over these 5 years?
- a) The average growth rate in Econoland is 2.2 percent (= $[3+1-2+4+5] / 5$).
- b) What term would economists use to describe what happened in year 3?
- b) The negative growth in year 3 is a recession.
- c) If the growth rate in year 3 had been a positive 2 percent rather than a negative 2 percent, what would have been the average growth rate?
- c) Had the economy increased rather than decreased in that year, the average growth rate would have been 3 percent (= $[3+1+2+4+5] / 5$).

Performance and Policy

- Real GDP
 - Corrects for price changes
- Nominal GDP
 - Uses current prices
 - Important to remember definition.
- Unemployment-think multiplier and lost GDP
- Inflation
 - Increase in overall level of prices
- GDP in 2002=\$10,469.6 billion
- GDP in 2012=\$15684.8 billion
- 2015:Q3: **\$18,060.2** Billions of Dollars

Performance and Policy

- Can governments:
 - Promote economic growth?
 - Reduce severity of recession?
- Is monetary or fiscal policy more effective at mitigating recession?
- Is there a tradeoff between inflation and unemployment?
- Is anticipated or unanticipated government policy more effective?

Performance and Policy

- Output growth
 - 2.7% per year 1995-2007
- Unemployment rate
 - 4.6% in 2007
- Inflation rate
 - 2.7% in 2007

Modern Economic Growth

- Standard of living measured by output per person
- No growth in living standards prior to Industrial Revolution
- Modern economic growth
 - Output per person rises
 - Not experienced by all countries

Global Perspective

Country	GDP per Person, 2009 (U.S. dollars based on purchasing power parity)
United States	\$46,443
Canada	38,290
United Kingdom	35,165
France	33,744
Japan	32,817
South Korea	27,791
Saudi Arabia	23,388
Russia	15,039
Mexico	13,542
China	6546
India	3932
North Korea	1800
Tanzania	1414
Burundi	401
Zimbabwe	354

Source: International Monetary Fund, www.imf.org, for all countries except for North Korea, the estimate for which is from the *CIA World Factbook*, www.cia.gov.

Savings and Investment

- Saving
 - Trade-off current for future consumption
- Investment
 - Financial investment
 - Economic investment-our focus?
- Banks and financial institutions-key to macro

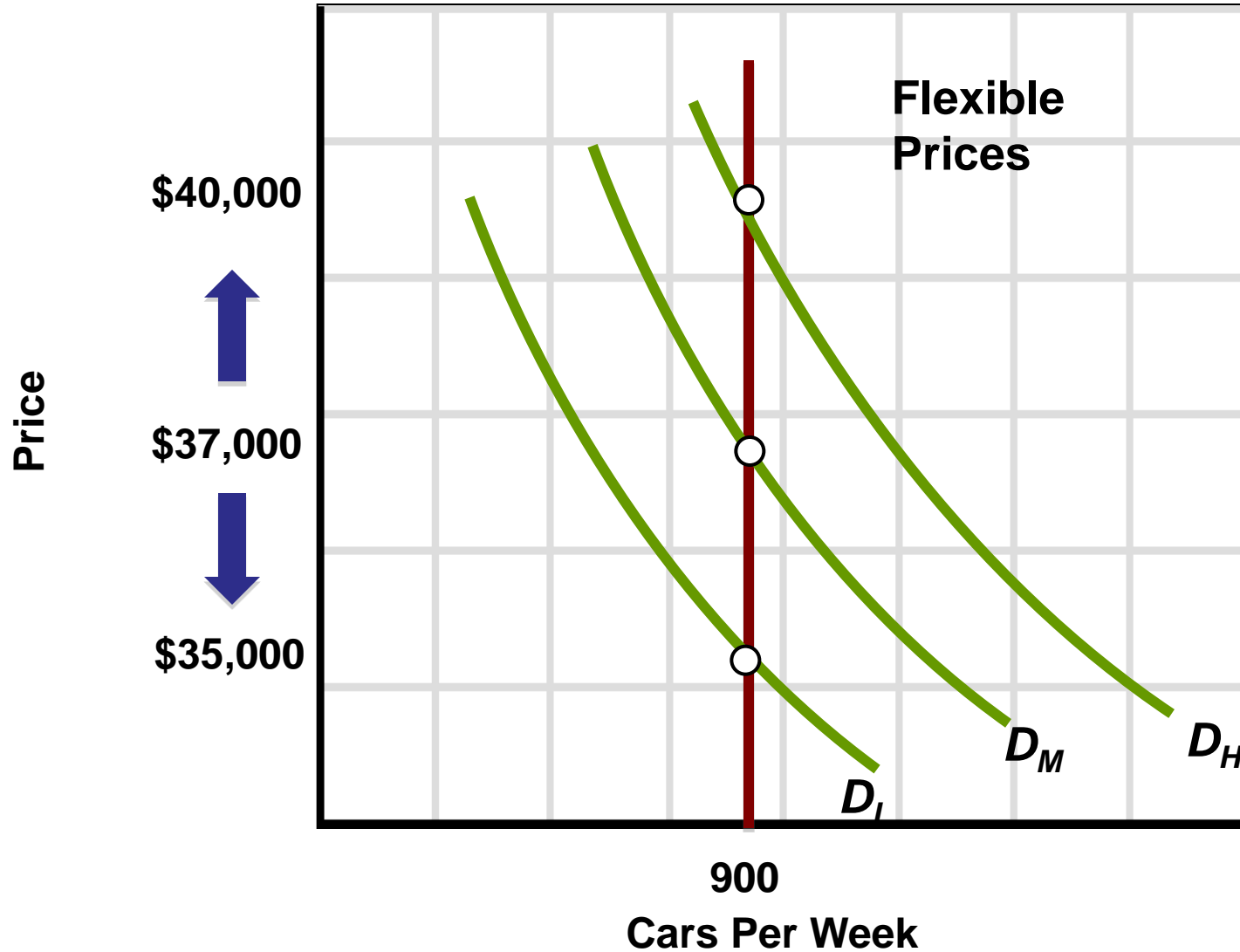
Uncertainty, Expectations, and Shocks

- The future is uncertain
- Expectations affect investment
- Shocks
 - What happens is not what you expected
- Demand shocks-unexpected changes
- Supply shocks
- Shocks-short-run changes, oil

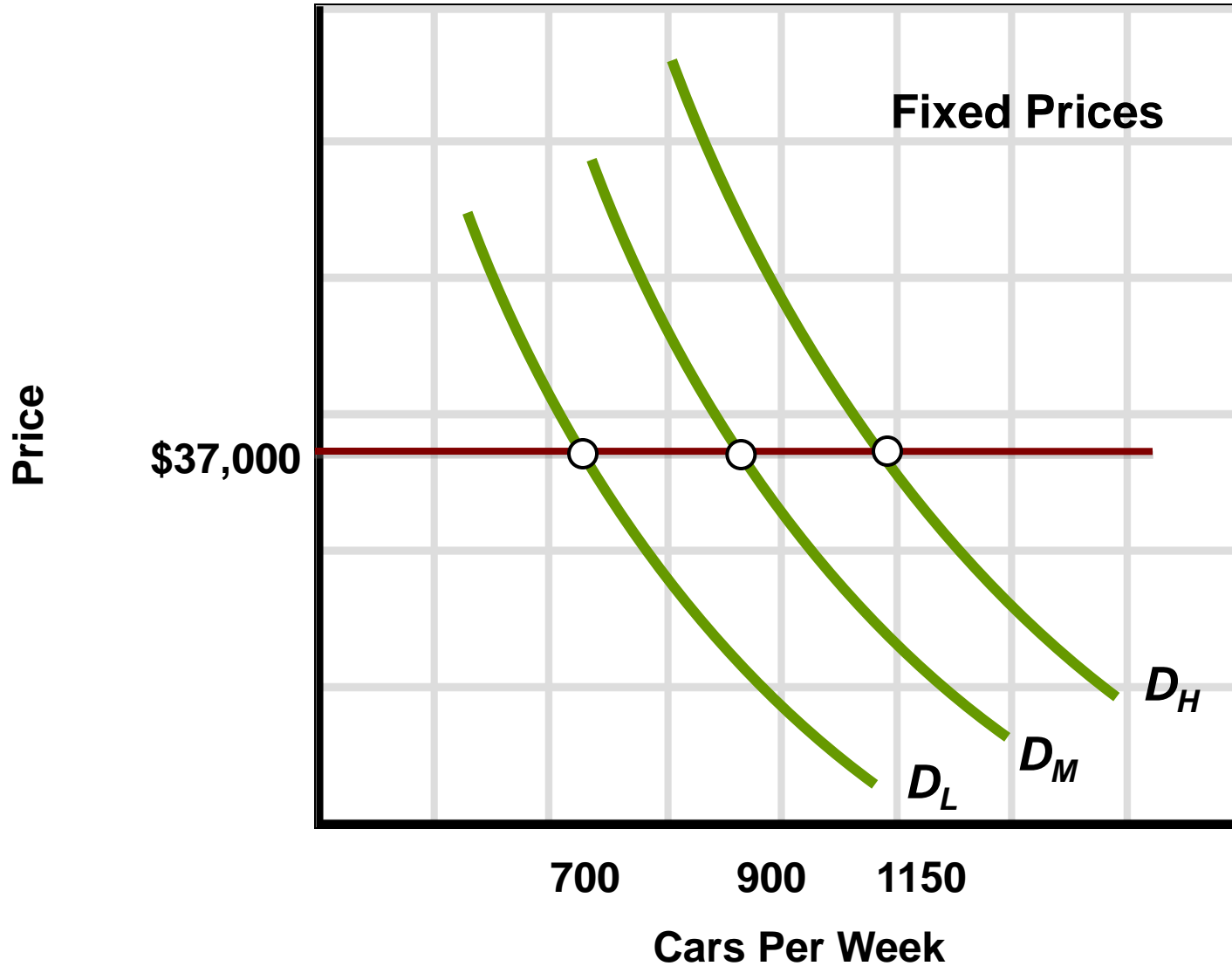
Uncertainty, Expectations, and Shocks

- Demand shocks and flexible prices
 - Price falls if demand is low
 - Sales unchanged
- Demand shocks and sticky prices-MOST LIKELY (menu changes)
 - Maintain inventory
 - Sales change
 - Stable prices-consumer like
 - Rivalry and price changes, price wars, game theory

Demand Shocks



Demand Shocks



Sticky Prices

- Many prices are sticky in the short run
 - Consumers prefer stable prices
 - Firms want to avoid price wars
- All prices are flexible in the long run
 - Firms adjust to unexpected, but permanent changes in demand

Team Teaching Schedule and Parameters

- Purpose & Structure of Team Teaching:
 - Student teams will be able to participate in planning and presenting a lesson (Chapter topic).
 - Student teams will design the lesson, activities and practice assessments (emphasizing FRQ and AP exam-style questions) in conjunction with teacher.
 - Student teams will meet at least once (preferably 2 weeks prior to their tentatively planned lesson presentation date) with teacher to discuss strategy, prepare materials and review topic.
 - Student teams will have a minimum of one and a half block periods for their presentation.
 - Student teams will receive class participation credit for their presentation based on individual and team scoring conducted via individual reflection at the conclusion of the lesson.

Topic/Chapter TENTATIVE Schedule

- CH 26: Feb 8
- CH 27: Feb 11
- CH 28: Feb 18
- CH 29: Feb 25
- CH 35: March 1
- CH 30: March 7
- CH 31: March 10*
- CH 32: March 21*
- CH 33: March 24*
 - *May collapse dates for CH 31/32 and move CH 24