Getting ready for the AP Macroeconomics Exam

Lesson 3

GDP- What counts, What doesn't?, Nominal vs. Real GDP, Expenditure Approach vs. Income Approach

Unemployment, Types of Unemployment, Labor Force, Labor Force Participation Rate, Unemployment Rate

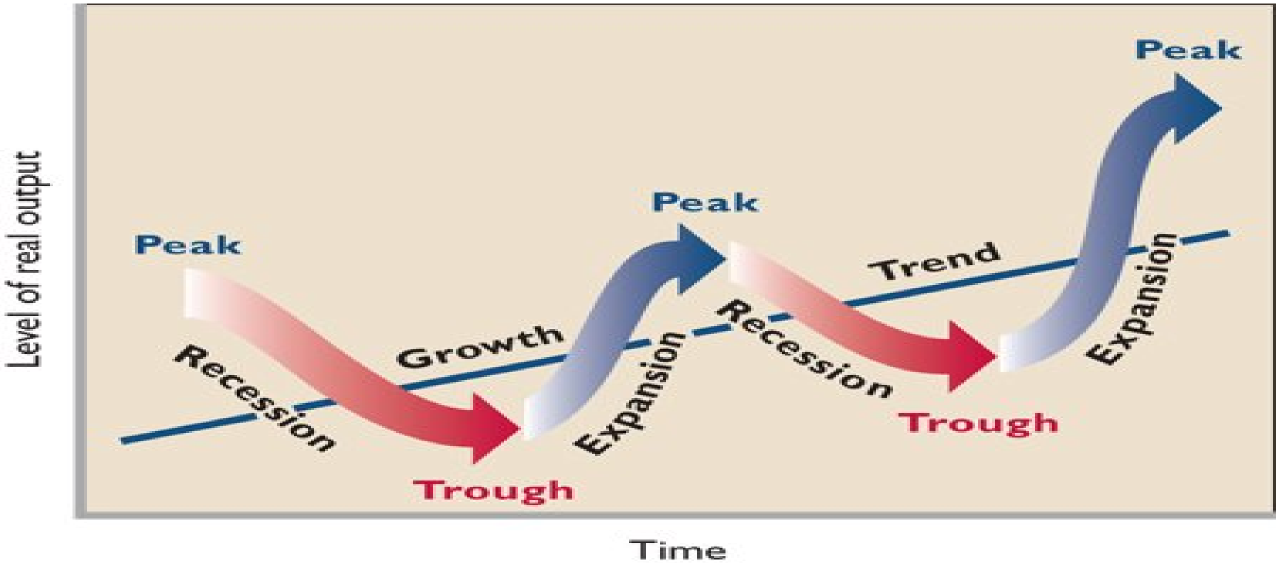
Inflation, Inflation Rate, Consumer Price Index, GDP Deflator

Economic Growth, Economic Growth per Capita

Indicators	**Equations if Applicable**
RGDP Market value of all final goods and services produced within a country in a given period of time	GDP = C + I + G + NX GDP = Wages + Interest + Rent + Profit GDP-Deflator = Nominal GDP / RGDP X 100 (calculating RGDP using base year prices allows for measuring change in production of goods and services only)
Unemployment Rate Percentage of the labor force that is unemployed	Unemployment Rate = Number of Unemployed / Labor Force X 100 Labor Force = Employed + Unemployed (not adult population – be careful) Labor Force Participation Rate = Number in the Labor Force / Adult Population X 100
CPI A measure of the overall costs / price changes of goods and services bought by the typical consumer Consumer Spending	CPI measures Price Change = Change in CPI / beginning or previous CPI X 100 All indexes measure price changes – GDP-Deflator and CPI are must knows for the AP exam

The amount of money spent by households in an economy. The spending includes durables, such as washing machines, and nondurables, such as food. It is also known as consumption, and is measured monthly. John Maynard Keynes considered consumer spending to be the most important determinant of short-term demand in an economy.	
Inflation Increase in the overall level of prices in the economy Inflation erodes the purchasing power of households' disposable income as well as rate of return on loans for firms (more about this later)	Inflation Rate = Index current period – Index previous period / Index previous period X 100
Economic Growth	Economic Growth Rate = RGDP current period – RGDP previous period / Index previous period X 100 GDP per Capita = GDP / Population

Business Cycle



Indicators	Contractionary Phase	Expansionary Phase
RGDP Market value of all final goods and services produced within a country in a given period of time	Declines because consumer confidence declines and investment spending declines (if consumers don't buy as many goods and services as previously, businesses have no reason to expand and invest in new capital	Increases because consumer confidence rises and investment spending will therefore rise as well (if businesses observe a greater demand for their products they will consider purchasing new capital goods and expanding the

	goods)	capital stock)
Consumer Spending The amount of money spent by households in an economy. The spending includes durables, such as washing machines, and nondurables, such as food. It is also known as consumption, and is measured monthly. John Maynard Keynes considered consumer spending to be the most important determinant of short-term demand in an economy.	Decrease because some people lost their jobs and there is fear that even more people may see lay-offs; therefore people save more for the "rainy days" and spend less	Increases because people are able to find jobs and change jobs, hence people feel secure earning an income, consumer confidence rises and so does consumer spending
Unemployment Rate Percentage of the labor force that is unemployed	Increases because firms experience in increase in inventory and therefore reduce their production which will lead to lay-offs.	Decrease because firms experience a decrease in their inventory due to an increase in consumer confidence. Hence, firms will start hiring again.
CPI A measure of the overall	Decreases because the overall demand for goods and services decreases, which leads to an increase in unplanned inventories. In	Increases because the overall demand for goods and services increases, which leads to a decline of the planned

costs of goods and services bought by the typical consumer	order to generate TR producers will lower the price of their products to incentivize consumption and will simultaneously produce less to reduce their inventories.	inventory signalizing to increase production. However increase in production will lead to greater costs for businesses and with this price increases. Also, the overall increase in demand may lead to marginal producers entering the market. These usually sell at higher prices due the higher costs they experience.
Inflation Increase in the overall level of prices in the economy	Decreases since the increase in inventories forces businesses to sell for lower prices.	Increases since a decrease in inventories for existing producers signals to produce more and endure higher costs and will therefore raise prices. In addition, the entry of marginal producers, who have higher production costs, into the market will lead to an increase in overall price levels.