Topic 1 - The Big Picture

Micro vs. Macro

- Microeconomics: single decision making units operating in a given environment
- Macroeconomics: deals with system-wide aggregates; large important issues that affect the whole system
    - Behaviour of groups of people systematically affects how well the market economy as a whole is functioning → risky to scale up what is true for an individual isolation to what is observed at a group level
        - Fallacy of composition: when something is claimed to be true of the whole merely because it is true for part of the whole

Positive vs. Normative Economics

- Positive: fact based, a testable statement which can be shown to be true/false – "how the economy works"
- Normative: value based, advocating for change or not, debating goals and preferred outcomes

Percentage Change vs. Percentage Points

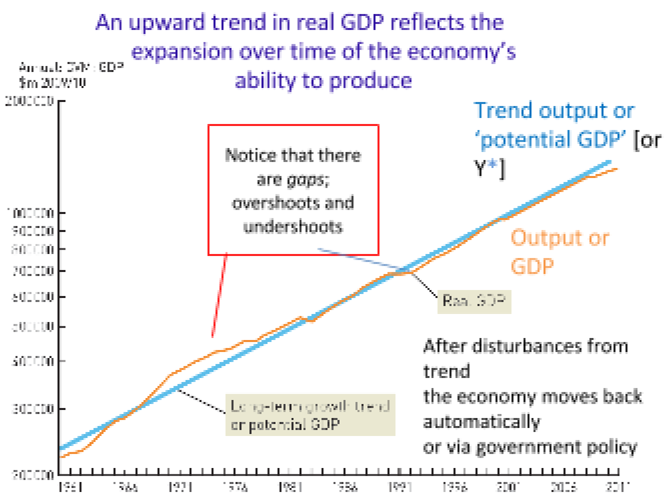
- Percentage change = [(new – old)/old]*100
- Percentage points: difference between two given percentage values

Topic 2 - Looking Ahead

Gross Domestic Product (GDP)

- Real GDP: a measure of the value of all goods and services newly produced (total output) in the economy during a specified times, adjusted for inflation – total output drives other changes
- Potential GDP: long term (average) trend of real GDP – given by aggregate supply
- Aggregate supply: the total value of all goods/services that an economy can produce efficiently using its available supply of capital, labour and technology

Economic Growth & Fluctuations

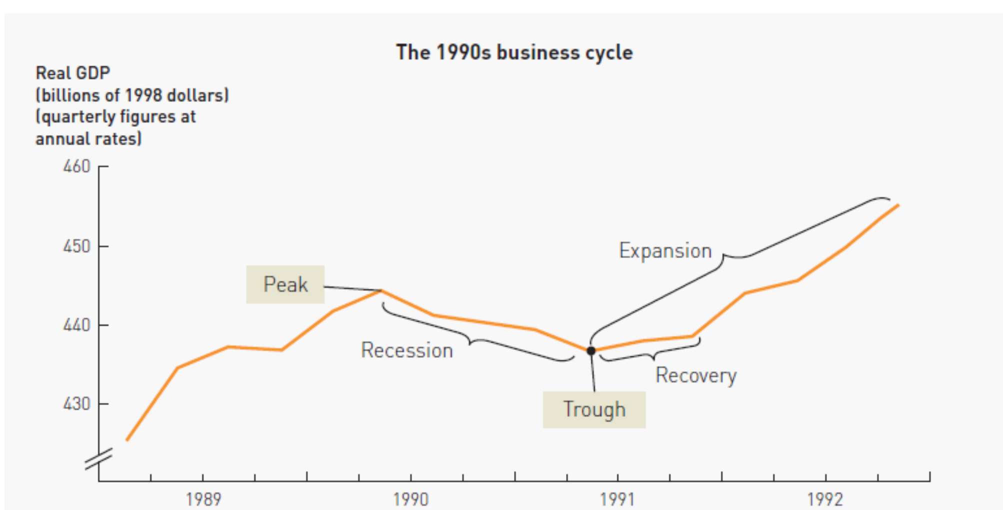


- overshoots: positive (above trend), undershorts: negative (below trend)
- Long-term economic growth: upward trend in real GDP, reflecting expansion of the economy over time

- Real GDP per capita = real GDP/number of people in the economy

Business Cycle

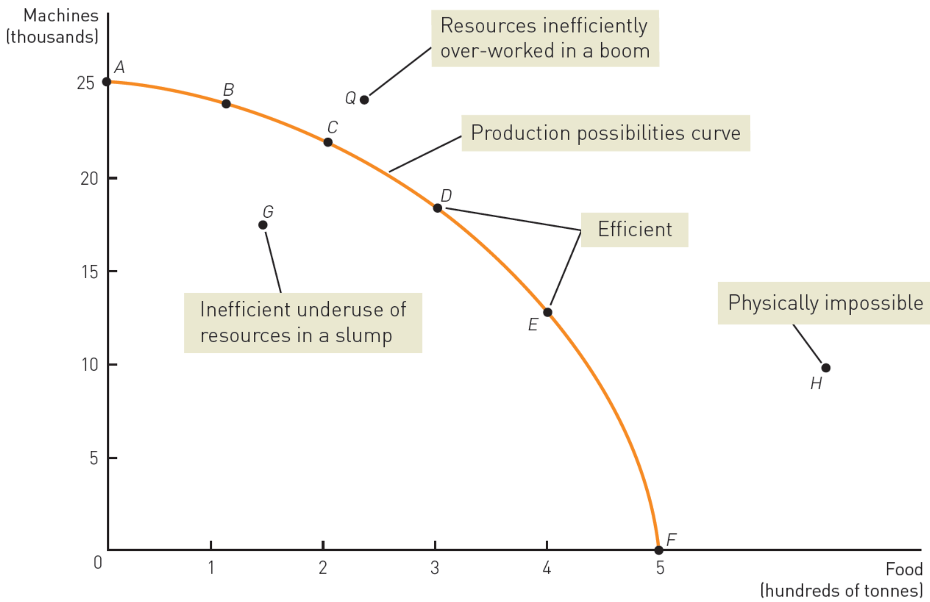
- Recession: decline in real GDP that lasts for at least 6 months (two quarters) or a sustained decrease in GDP
- Recovery: the early part of economic expansion, immediately after the trough of a recession
- Peak: highest point before a recession



- Trough: lowest point after a recession and before expansion
- Expansion: sustained increase in GDP after a recession
- Boom: real GDP > potential GDP
- Slump: real GDP < potential GDP – follows a recession until an economy recovers
- Contraction: a slump without a recession
- Growth recession: slowdown in the growth rate of GDP

Production Possibility Curve (PPC)

- PPC: a curve showing the maximum possible combinations of sustainable (or efficient) production of two goods, given the economy's resources and level of technology



- Shape of the PPC is due to increasing opportunity costs
- Increase in output, entire PPC shifts outwards
- Inefficiency can be caused through market failure (buyers and sellers in the marketplace unable to coordinate actions)
- During short-term fluctuations around the PPC, total investment and total consumption move in the same direction

Keynesian & Classical

- Classical: relies on markets; works well over trend, but not during fluctuations around the trend (long-term)
- Keynesian: markets can fail and government intervention can improve macroeconomic performance → fluctuations result from sudden changes in demand (spending), supply (capacity) is stable (well-behaved), but spending can change and rapidly affect input utilisation (short-term)

Unemployment

- Someone is unemployed if working < 1hr a week and actively looking for work and is ready to get started within a week an offer is made
- Natural unemployment rate (U*): the unemployment rate that exists in normal times where there is neither a slump nor a boom; real GDP = potential GDP (the economy is on its PPC); made up of structural and frictional components, does not include cyclical unemployment
- Cyclical unemployment rate: unemployment due to a slump when the rate of unemployment is above the natural rate of unemployment – occurs during and shortly after recessions
- Percentage rate of unemployment = (number of unemployed/labour force)*100
- Frictional unemployment: short-term unemployment arising from normal turnover in the labour market, such as when people change occupations, locations or are new entrants
- Structural unemployment: long term (6 months +) unemployment due to structural problems such as poor skills or longer-term changes in demand or insufficient work incentives in specific industries – e.g. mismatch of what skills employers want and what skills workers have
- Current unemployment = structural unemployment + frictional unemployment + cyclical unemployment
- Boom = U < U* ; slump = U > U*