

## GDP

- **Gross domestic product** → the market value of all final goods and services produced in a country (economy) during a period of time
- GDP does not include the market value of intermediate goods and services (goods used as inputs, tyre for a car)
- GDP includes only current production, does not include the value of second-hand goods
- **Different methods of measuring GDP**
  1. **Income method**
    - GDP is the sum of all incomes in an economy. This includes wages, rent, dividends and profit
  2. **Production method**
    - The sum of the values of all goods and services produced by industries in the economy in a year minus the cost of goods and services used in production
  3. **Expenditure method**
    - GDP is the sum of total expenditure in the economy, including consumption, investment, Government spending and net exports (value of total exports minus value of total imports)
- **Limitations of GDP as a measure of welfare**
  - The distribution of GDP is not captured in GCP measures (some may be well off and others not)
  - The value of non-market production is not included in GDP
  - The level, quality of, and access to health care and education is not measured in GDP
  - GDP is not adjusted for pollution or other negative effects of production
  - GDP is not adjusted for changes in crime and other social problems
  - Household production → goods and services people produce for themselves e.g. cleaning, childcare, gardening, home maintenance
  - Black market → buying and selling of goods that is concealed from the government to avoid taxes or regulations or become and services are illegal

## Unemployment

- People are considered employed if they worked for at least one hour in paid employment in the week before
- If people are unemployed they would answer no to working last week and yes to are they actively looking for work and are they currently available to start work
- **Unemployment** → refers to those people who are willing to work, have made an effort to find work but don't have jobs
- **Unemployment Rate** → the percentage of the labour force that is unemployed
- **Labour Force** → the sum of employed and unemployed worked in the economy
- If a person does not meet the classification of being either employed or unemployed the person is classified as not being in the labour force
- **Full Employment** → the absence of involuntary unemployment, a situation where all those wishing to work at the ruling set of real wage rates can find unemployment
- **Natural Rate of Unemployment** → the normal rate of unemployment consisting of structural and frictional unemployment. In Australia, the unemployment rate is 4.75%
- **Types of Unemployment**
  - **Cyclical Unemployment** → unemployment caused by a business cycle contraction/recession, slowing growth rate means some firms have less demand for their products
  - **Frictional Unemployment** → short-term unemployment arising from the process of matching workers with jobs. School leavers and university graduates looking for first job. People re-entering the work after an absence. People who have quit their job looking for a new job related to their degree
  - **Seasonal Unemployment** → Unemployment due to factors such as weather, variations in tourism and other calendar related events
  - **Structural unemployment** → Unemployment arising from a persistent mismatch between the skills and characteristics of workers and the job requirements. New technology and changes in consumer tastes may make some workers redundant. Re-training, job creation and job destruction
- **Costs**
  - Loss of GDP
  - Lower rates of Economic Growth
  - Retraining costs
  - Unemployment benefit payments are a net drain on the budget → government needs to pay you if you are unemployed
  - Loss of tax revenue – personal income tax, company tax, GST and excise taxes
  - The opportunity cost of funds directed towards unemployment benefits
  - Unemployment is bad for the economy
  - No earning money = not paying tax
  - Loss of income
  - Lower standard of living
  - Loss of self esteem
  - Unemployment may contribute to family break ups, health problems, mental illness, crime and political unrest
- Limitations of measurement
  - **Discouraged workers** → people who are available for work but have not looked for a job during the previous four weeks because they believe no jobs are available for them
  - **Underemployed workers** → people who work part time but would like more work hours
  - **Overstated** → people who claim to be unemployed but are not

$$\frac{\text{Number of unemployed}}{\text{Labour Force}} \times 100 = \text{Unemployment Rates}$$