

# ECON1020 Mid Semester Revision

## Lecture 1

Macroeconomics	Microeconomics
<ul style="list-style-type: none"><li>System as a whole Large aggregates system-wide (price level, total output, total employment)</li><li>Prices and quantities of ‘stuff’ in <u>general</u></li><li>Large chunks of the economy affect the health of the rest</li><li>Unfamiliar subject matter: remote from your ordinary experience (unlike Micro)</li></ul>	<ul style="list-style-type: none"><li>Small parts of a system Small, individual decision-making units operating in a ‘given’ environment, often subjected to one change e.g., a <u>relative price</u></li><li>Prices and quantities of individual inputs and outputs</li><li>The rest of the economy works smoothly</li></ul>

Micro and macro also differ in **how we reason**

- If we are analysing small parts *in a much larger and well-functioning whole*, we use **micro** reasoning
  - If shocks are safely absorbed by individual price and resource movements, it’s OK think like a microeconomist
- But if we are analysing a part of the system that is so *large* or *importantly connected* that it significantly affects the whole system, we use **macro** reasoning
  - If shocks in one part spread and **amplify** across the system, think like a macroeconomist

### Percentage Change:

$$\% \text{ change} = \left( \frac{\text{new} - \text{old}}{\text{old}} \right) \times 100$$

### Percentage point

The unit for the arithmetic difference of two percentages.

e.g. moving up from 40% to 44% is a 4 percentage point increase, but is an actual 10 percent increase in what is being measured

### Property Prices and Ripple Effects

Factors which could be responsible for the growth in property prices:

- Income Growth
- Population Growth
- Infrastructure
- Speculation

Consequences of a sharp decline in property prices for the wider economy:

- Decreases in property prices are usually followed by a fall in household spending, especially on durable goods (cars, appliances etc).
- Property mortgages are also the biggest asset for Banks. If house prices fall and people default on loans, banks are unable to recover the full amount of their loans by selling the underlying property. Consequently, banks’ profitability decreases.

### Correlation

\*Correlation does not imply causation

*Ceteris paribus*

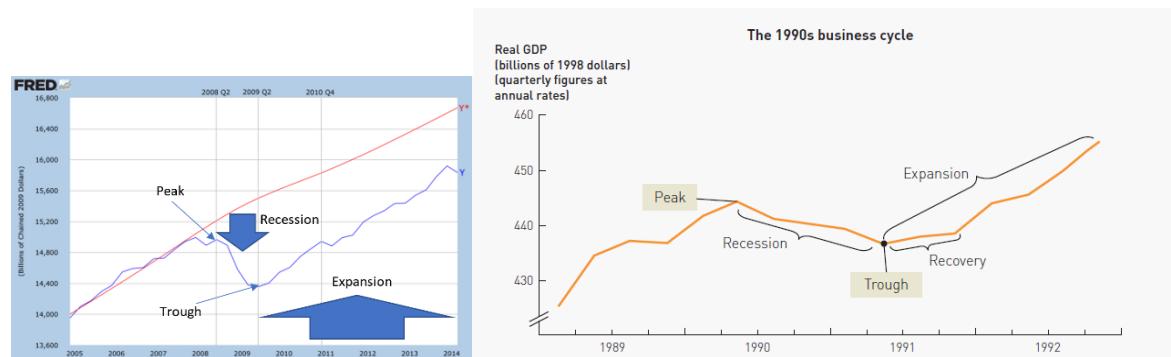
## Lecture 2

### Positive:

- objective and fact based
- do not have to be correct, but they must be able to be tested and proved or disproved

### Normative:

- subjective and value based (Value judgement)
- opinion based, so they cannot be proved or disproved.



[\*]indicates a trend value, e.g.  $U^*$ ,  $Y^*$

Trend output / ‘potential GDP’ [ $Y^*$ ]

Output / Real GDP [ $Y$ ]

- **Boom:** when GDP is above potential GDP ( $Y > Y^*$ ) Positive output gap
- **Slump:** when GDP is below potential GDP ( $Y < Y^*$ ) Negative output gap
- **Peak:** generally the highest point before a recession
- **Recession:** technically two consecutive negative quarters of growth, but for the purposes of the diagram the sustained decrease in GDP is all we need (*Output falls*)
- **Trough:** the lowest level of GDP after a recession and before an expansion
- **Expansion:** the sustained increase in GDP after a recession

Australia did not experience recession since the 1990s

\*from above trend to below trend, it is still growing but grow below trend  
(moving from boom to slump = no recession)  
(growth recession = slowdown)

Output depends on Inputs (Labour, Capital) and Know-how (Technology)

- One measure of total (aggregate) output is GDP
- Land (gifts of nature) is a ‘given’
- Technology (Te) improves steadily (economy-wide, for simplicity)