Week One – The Basics:

- **Homo economicus:** *economic man*
  - 1. Rational: approach the world logically
  - 2. Selfish: Care about themselves first
  - 3. Maximising: want more rather than less
  - 4. Atomistic
- **Positive economics:** The study of what *is.* E.G. do students who attend lectures receive higher grades as compared to those who watch them online?
- **Normative economics:** The study of what *ought to be*. E.G. Lectures should be more entertaining.
- **PRODUCTION FUNCTION**:
  - $Y = f(K, L)$
  - Two kinds of capital: physical (quantity of factories, equipment etc) and human (stock of skills and education)
- **CIRCULAR FLOW MODEL:** The basis of most national income accounting. Depicts the ongoing "circular flow" of resources between firms, households, banks, government and exports.
- **PRODUCTION POSSIBILITIES FRONTIER:** a flexible model in that it can be applied to a single firm or an entire economy. It indicates the range of outputs that can be efficiently produced, and the trade-offs between different bundles of output. *Note: The slope of the PPF is the OC on the x-axis*.

Week Two: The Great Depression

- Began sometime in October 1929, stock prices dropped 15-20% on the 24th of October, then was saved by a pool of bankers, but the following Monday stocks continued to drop. Because demand for workers and products was so low, prices and wages fell dramatically as well (deflated).
- The financial crisis almost decimated private banking because:
  - **Bank sources of funds:** depositors deserted banks, reducing liquidity, and the banks uses of funds (loans, security investments etc) all fell sharply in value or disappeared.
  - **Liquidity:** the amount of cash in the system dried up both due to vanishing deposits and sharp contractions in bank credit.
- The economic crisis saw a huge fall in prices and wages, depressing worker incomes, reducing consumption, and demand for output which further caused producers to cut back production and employments. Existing debt mean that when debts were adjusted for inflation, the debts became larger.
- International trade collapsed during the Depression, and the volume of trade fell because:
  - 1. **As domestic economies shrank** there was **less domestic demand for overseas goods** (Fall in M)
  - 2. **Countries shut off their domestic markets to keep 'demand at home'**
- Governments responded by creating high tariff walls around their economics, and effectively shutting off M and X.
- Tying the depression to macroeconomic models:

    - In PPF terms, the GD represented a major contraction in the curve that had existed prior.
    - In circular flow terms, there was a substantial reduction in both real and nominal flows which fed and deepened the overall economic collapse.
    - In Production function terms, falls in L and K (inputs) led to major falls in output (Y).
- **REAL ECONOMY:** refers to the relationships of, and the transactions between buyers and sellers and the interaction of supply and demand. It refers to production and the consumption of actual goods and services.
- **NOMINAL ECONOMY:** The financial economy often does not reflect the current state of affairs in the 'real' economy. It refers to the trading of stocks, markets for money, and financial assets. In this sense, the real economy is fundamental, while the nominal economy is derived from it and sits on top.

Week Three: National Income Accounting

- **REAL GDP:**
    - Measures the volume of goods and services produced in the economy, adjusted for inflation
    - Movements in the real GDP reflect changes in the quantity of output, not price changes
    - It reflects only the quantities produced because it holds prices constant at base-year levels.
    - **REAL GDP is measured as an average of 3 measures:** GDP expenditure, GDP (I) income measure, GDP (p) production measure
- **Expenditure Method:**
    - $Y_{GDP} = \mathrm{C} + \mathrm{I} + \mathrm{G} + (\mathrm{X} - \mathrm{M})$
    - C = household consumption, I = Investment, G = Govt. Expenditure, X-M = net export
- **NOMINAL GDP:**
    - Measures the value of goods and services in the economy, NOT adjusted for inflation, so accounts for both volumes and prices.
    - Movements in nominal GDP reflect changes in the quantity of output and price changes.
    - Nominal and real GDP levels are the same in the base year.

Real GDP is calculated by nominal GDP/GDP deflator x 100

- **Gross domestic product:** is the market value of the final goods and services produced in an economy over a certain period.
    - Usually expressed using one reference currency, typically the USD.
- **Purchasing Power Parity:** Alternatively, the values of the national currencies of two economies can be converted to a single international currency – known as international dollars. PPPs are essentially the currency conversion rates that eliminate difference in price levels between countries and equalise the purchasing power of different countries. It is calculated as the ratio of the price of the same good in different countries in local currencies.
    - **EG: Coke is ¥3.5 in China, and $1 in the US. PPP = ¥3.5/$1 = 3.5**
    - If you calculate the PPP for every good and service produced and average the values, you can evaluate PPP for the GDPs between two countries.