



MACROECONOMICS Ultimate Cheat Sheet



■ Key Equations and Relationships

1. Labor Participation Rate =
people in labor force/working age population x 100
2. Unemployment rate =
people unemployed/# people in labor force x 100
3. % Change in GDP =
(New GDP - Old GDP)/Old GDP x 100
4. Consumer Price Index =
Value of market basket/Value in base year x 100
5. GDP deflator =
Nominal GDP/Real GDP x 100
6. GDP (Expenditure Approach) =
 $C + I + G + (X - M)$
7. GDP (Income Approach) =
Wages + Rent + Interest + Profit
8. MPS =
 $1 - MPC$
9. Spending Multiplier =
 $1/MPS$
10. Tax Multiplier =
 MPC/MPS or $(1/MPS) - 1$
11. Money Multiplier =
 $1/Reserve Requirement$
12. Real Interest Rate =
Nominal Interest Rate - Expected Inflation
13. Quantity Theory of Money:
 $M \times V = P \times Y$

Identify if the following will ↑ or ↓ as a result of the change:

14. ↑ Human Capital → Economic growth $_ \uparrow _$
15. ↑ Demand → Equilibrium price $_ \uparrow _$
16. ↑ Supply → Equilibrium price $_ \downarrow _$
17. ↑ Consumer Spending → Real GDP $_ \uparrow _$
18. ↑ Interest rates → Investment $_ \downarrow _$
19. ↑ Inflation → Real wages $_ \downarrow _$
20. ↑ Discouraged workers → Unemployment rate $_ \downarrow _$
21. ↑ Aggregate demand → Price level $_ \uparrow _$
22. ↑ SR Aggregate supply → Price level $_ \downarrow _$
23. ↑ Government Spending → Real GDP $_ \uparrow _$
24. ↑ Taxes → Disposable income $_ \downarrow _$
25. ↑ MPC → Spending Multiplier $_ \uparrow _$
26. ↑ Interest Rates → Bond prices $_ \downarrow _$
27. ↑ Money Supply → Nominal interest rates $_ \downarrow _$
28. ↑ Reserve requirement → Money supply $_ \downarrow _$
29. ↑ Discount rate → Money supply $_ \downarrow _$
30. ↑ Central bank buys bonds → Money supply $_ \uparrow _$
31. ↑ Interest on reserves → AD $_ \downarrow _$
32. ↑ Inflation → Real interest rates $_ \downarrow _$
33. ↑ Deficit spending → Real interest rates $_ \uparrow _$
34. ↑ Capital stock → Economic growth $_ \uparrow _$
35. ↑ Appreciation → Net exports $_ \downarrow _$
36. ↑ Interest rates → Net capital inflow $_ \uparrow _$

37. Comparative advantage- A country makes a good at a lower **opportunity** cost than another country.
38. Investment- **Business** spending on physical capital, never personal investing.
39. Full employment- When there is only **frictional** and **structural** unemployment.
40. Long-run self-adjustment- When there's a positive or negative output gap, **SRAS** will eventually shift.
41. Fiscal policy- Government changes **spending** spending and/or **taxes**. This shifts AD.
42. Monetary policy- When there are limited reserves, central banks can influence interest rates by changing the **reserve** requirement, **discount** rate, or by doing open market operations. This shifts AD.
43. Open Market Operations- When central banks buys or sell **bonds**.
44. Crowding Out- Deficit spending leads to higher **real** interest rate and less **investment**.
45. Capital Inflow- High interest rates decrease investment but attract more foreign **financial** capital.



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Essential Graphs

