



Macroeconomics Unit 2 Study Guide

Economic Indicators & Business Cycles

Topic 2.1- The Circular Flow and GDP ▶

1. Define gross domestic product (GDP)
2. What is the expenditures approach?
3. $GDP = \text{---} + \text{---} + \text{---} + \text{---}$
4. What is the income approach?
5. $National\ Income = \text{---} + \text{---} + \text{---} + \text{---}$
6. What is the value-added approach?
7. The circular flow model shows how households, businesses, and the _____ interact. Businesses sell _____ to households in the _____ market and households sell _____ to businesses in the _____ market. Public goods and services are provided by the _____.

Topic 2.2- Limitations of GDP ▶

1. Identify three types of transactions that are not included in GDP. Give an example of each
- Identify if each statement is true or false:*
2. On the circular flow model, businesses sell the factors of production to households.
 3. Intermediate goods are used in the production process to produce final goods.
 4. Final goods are included in GDP but services are not counted.
 5. Investment spending is spending on financial assets like stocks and bonds.
 6. Welfare checks and subsidies to businesses are examples of transfer payments.
 7. Transfer payments are not counted in the calculation of GDP.
 8. The equation for net exports is imports minus exports.
 9. New housing construction is considered investment and is counted in GDP.
 10. Canada's GDP includes goods produced in other countries by Canadian companies.

Topic 2.3- Unemployment ▶

Use the info in the chart below to identify the following

Total Adult Population	1600
Full-time Workers	600
Part-time Workers	120
Unemployed	80
Discouraged Workers	20

1. Number of workers in labor force.
2. Labor force participation rate.
3. What is the equation for calculating the unemployment rate?
4. Calculate the unemployment rate.
5. Assume that 50 of the 80 unemployed workers also become discouraged workers. Calculate the new unemployment rate.
6. Does the new unemployment rate after the increase in discouraged workers overstate or understate the actual level of joblessness in the economy? Explain.
7. Why are discouraged workers not included in the unemployment rate?
8. What happens to the unemployment rate when full-time workers involuntarily become part-time workers?



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Topic 2.3- Unemployment (continued)

<p>9. Define and give an example of frictional unemployment.</p> <p>10. Define and give an example of structural unemployment.</p> <p>11. Define and give an example of cyclical unemployment.</p> <p>12. What is the natural rate of unemployment?</p>	<p>13. Fully explain why “full employment” does not mean 0% unemployment</p>
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Topic 2.4- Price Indices and Inflation ▶

<p>1. What is the Consumer Price Index (CPI)?</p> <p>2. Identify the equation for the CPI.</p> <p>3. Assume the value of a market basket for a given year is \$550 and the same basket in the base year was \$500. Calculate the CPI.</p> <p>4. If the CPI for a given year is 90 then the change in prices between that year and the base year is _____%.</p> <p>5. Fill in the blanks. Start with 2009 as the base year then recalculate with 2010 as the base year.</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th>Year</th> <th>Market Basket</th> <th>Base Year 2009</th> <th>Base Year 2010</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>\$20</td> <td>100</td> <td></td> </tr> <tr> <td>2010</td> <td>\$40</td> <td></td> <td>100</td> </tr> <tr> <td>2011</td> <td>\$50</td> <td></td> <td></td> </tr> </tbody> </table>	Year	Market Basket	Base Year 2009	Base Year 2010	2009	\$20	100		2010	\$40		100	2011	\$50			<p>6. What is the GDP Deflator?</p> <p>7. Identify the equation for the GDP deflator</p> <p>8. The nominal GDP is \$100 billion and the real GDP is \$80 billion. Calculate the GDP deflator.</p> <p>9. The Real GDP is \$100 billion and the GDP deflator is 200. Calculate the nominal GDP.</p> <p>10. The real GDP is \$200 billion and the GDP deflator is 120. Calculate the nominal GDP.</p> <p>11. The nominal GDP is \$300 billion and the GDP deflator is 150. Calculate the real GDP.</p> <p>12. The nominal GDP is \$100 billion and the GDP deflator is 125. Calculate the real GDP.</p>
Year	Market Basket	Base Year 2009	Base Year 2010														
2009	\$20	100															
2010	\$40		100														
2011	\$50																

Topic 2.5- Costs of Inflation	Topic 2.6- Real v. Nominal GDP
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<p>1. Identify who is hurt and who is helped by unexpected inflation.</p>	<p>1. What is the difference between the nominal GDP and the real GDP.</p>
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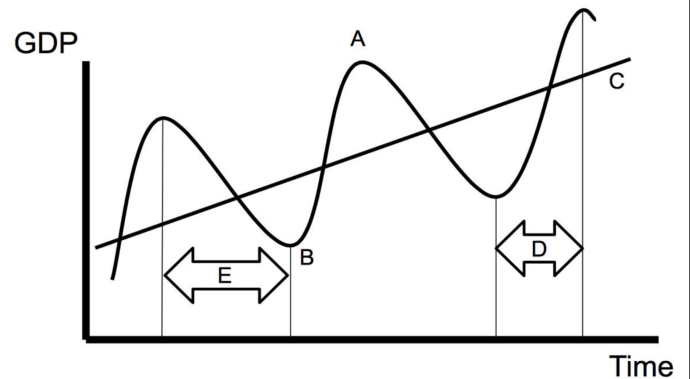
Topic 2.7- Business Cycles ▶

1. Use the graph to the right to identify the following:

- ___ Potential GDP
- ___ Peak
- ___ Recession (contraction)
- ___ Trough
- ___ Expansion (recovery)

2. Which type(s) of unemployment exist when the economy is at point B?

3. Label a new point (F) where the economy is at the natural rate of unemployment.



Identify each of the following on the circular flow diagram for a closed economy: ▶

Consumption
Government Spending
Factor Payments
Goods/Services (use twice)

Investment
National Income
Private Borrowing
Private Savings

Public Borrowing
Public Savings
Resources (use twice)
Revenue
Taxes (use twice)

