



# MACROECONOMICS UNIT 2

## Economic Indicators



### BIG PICTURE IDEAS

- #1. Economists measure the health of the economy by looking at key economic indicators like gross domestic product (GDP), the \_\_\_\_\_ rate, and the \_\_\_\_\_ price index, which measures inflation.
- #2. The circular flow model shows how households, businesses, and the \_\_\_\_\_ interact.
- #3. Gross domestic product (GDP) is the dollar value of all \_\_\_\_\_ goods and services produced within a country in one \_\_\_\_\_.
- #4. There are three types of unemployment: frictional, \_\_\_\_\_, and cyclical. The economy is at full employment when there is no \_\_\_\_\_ unemployment.
- #5. \_\_\_\_\_ GDP is adjusted for inflation and expressed in constant, or unchanging, dollars. \_\_\_\_\_ GDP is not adjusted for inflation.

### ■ Topic 2.1- The Circular Flow and GDP

1. How does the expenditures approach measure GDP?

$$\text{GDP} = \text{_____} + \text{_____} + \text{_____} + \text{_____}$$

3. How does the value-added approach measure GDP?

4. Businesses sell goods and services to households in the \_\_\_\_\_ market and households sell resources to \_\_\_\_\_ in the resource market.

5. Public goods and services are provided by the \_\_\_\_\_ and are funded by \_\_\_\_\_.

6. Identify an example of each of the following:

Consumer Spending

Investment Spending

Government Spending

Net Exports

2. How does the income approach measure GDP?

$$\text{National Income} = \text{_____} + \text{_____} + \text{_____} + \text{_____}$$

### ■ Topic 2.2- Limitations of GDP

7. Identify three types of transactions that are not included in GDP. Give an example of each.

Identify if each statement is True or False.

8. Services are not counted in the calculation of GDP because nothing new was produced.

9. Intermediate goods are used in the production process to produce final goods.

10. A new paint job on a used car is not counted in GDP.

11. Investment spending is spending on financial assets like stocks and bonds.

12. Subsidies to businesses are examples of transfer payments.

13. Transfer payments are not counted in the calculation of GDP.

14. The equation for net exports is imports minus exports.

15. New housing construction is considered investment and is counted in GDP.

16. Canada's GDP includes goods produced in other countries by Canadian companies.

17. Inventories, goods that have been produced by a business but have not yet been sold, are counted in GDP as investment.



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### ■ Topic 2.3- Unemployment

18. For each example, identify if the person faces frictional, structural, or cyclical unemployment or if they are not counted in the labor force.

- Avery loses her job because of a recession and decides to stop looking for work
- Lindsey quits her part-time job at a restaurant to search for a full-time job
- David lost his job at a toy factory due to a national slowdown in production
- After graduating from college, James lacks the skills to fill any of the available jobs
- Daniel retires from being a lawyer and volunteers at a local museum full time

Frictional	Structural	Cyclical	Not Counted

Use the info in the chart to identify the following. Show your work.

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

19. Number of workers in the labor force.
20. Labor force participation rate.
21. What is the equation for calculating the unemployment rate?
22. Calculate the unemployment rate.
23. Assume that 50 of the 80 unemployed workers also become discouraged workers. Calculate the new unemployment rate.
24. Why are discouraged workers not included in the unemployment rate?

25. Assume an economy saw an increase in discouraged workers. Does the unemployment rate overstate or understate the actual level of joblessness in the economy? Explain.

26. What happens to the unemployment rate when full-time workers involuntarily become part-time workers? Explain.

27. What is the natural rate of unemployment (NRU)?

28. Fully explain why "full employment" does not mean 0% unemployment.

### ■ Topic 2.4- Price Indices and Inflation

29. Identify the equation for the CPI.

30. Fill in the chart. Start with 2020 as the base year then recalculate with 2021 as the base year.

Year	Market Basket	CPI: Base Year 2020	CPI: Base Year 2021
2020	\$20		
2021	\$40		
2022	\$50		
2023	\$30		

31. If the CPI for a given year is 200 then the change in prices between that year and the base year is  %.
32. If the CPI for a given year is 90 then the change in prices between that year and the base year is  %.
33. Assume the value of a market basket for a given year is \$220 and the same basket in the base year is \$200. Calculate the CPI.
34. Assume the CPI is 120 and the current value of the market basket is \$600. What is the dollar value of the same basket using base year prices?
35. Assume the CPI is 140 and the value of a market basket adjusted for inflation is \$200. What is the dollar value of the basket in current prices?

