Monday, January 13, 2014

ECON 203 2014/4

Chapter 4 : economic activity & performance

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3 Main sections of Chapter 4;

1. GDP
2. INF
3. Unemployment

1. GDP (Gross Domestic Product)

The value of all final goods and services produced in a region over a given time.

GDP Must have a dollar amount attached to it. *ex. doing you own laundry vs. paying someone to do it for you.*

- Final goods count in the GDP / intermediate goods do not.
  - ex. buying a car vs. buying a windshield for the car.
- Shares, bonds etc. do NOT count for GDP
- GDP is usually measured Annually or quarterly
- Illegal goods or services do NOT count in GDP
- GNP (Gross national product) *: the value of all final goods and services produced by a regions citizens (globally).*

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How to calculate GDP: *(3 methods of Approach)*

1. Expenditure Approach

C + I + G + X - M

C - *Consomption*

I - *Gross capital Investment (Spending on final G+S by firms, Housing)*

G - *All levels of government*

X - *Exports*

M - *Imports*

C + I + G + X - M *can also be known as* NX *(Net exports)*

- If NX = 0 zero then imports and exports are the same.

Ref. Mat. ;

- "C" is the biggest component of the CDN economy
- Net Exports (NX) are generally between -5% & +5%

2. Income Approach

how much did you earn form final goods and sales?

Categories:

1. Wages and salaries
2. Non farm/ incorporated business income (SELF EMPLOYED)
3. Farm Income
4. Corporate profits
5. indirect taxes (Gov revenue through sales tax (INCLUDED IN GDP)
6. Investment income. (eg. income from a rental property)
7. Depreciation (CCA or Capital Consumption Allowance)

    - *Money spent maintaining an asset (Cars, road work, etc.)*

3. Value added Approach.

What value do you create?

The difference between what it cost to produce a product and what it sells for.

2 categories: Materials & Value added

In theory all approaches should give the same data, in reality they do not.

For this reason they have: Statistical Discrepancy

EX.

E	I	V	
100	90	95	
-5	+5		
95	95		GDP adjusted

Calculating GDP

***1st year is not always base year,**

***Gov. often change base year to improve their economies image.**

Nominal GDP

YEAR	HOT DOG	HAMBURGER	NOMINAL GDP
2011 (base)	10 @ $2.00	20 @ $5.00	$120.00
2012	12 @ $1.50	15 @ $6.00	$108.00

Real GDP

YEAR	HOTDOG	HAMBURGER	REAL GDP
2011 (base)	10 @ $2.00	20 @ $5.00	$120.00
2012	12 @ $2.00	15 @ $5.00	$99.00

* Real GDP - eliminate inflation effects by using prices from base year for every subsequent year.

GDP DEFLATOR

GDP DEFLATOR = NGDP / RGDP X 100

eg. Deflator for 2012: 108 / 99 X 100 = 109.1

* Base year deflator always equals 100.

* If deflator is less than 100 then economy in deflating

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Calculating Growth Rate of GDP

$$\frac{GDP2 - GDP1}{GDP1} \times 100$$

* RECESSION : GDP Shrinking

* EXPANSION : GDP Growth

GDP Divided by the number of people = GDP per capita.

Calculating INFLATION

1. Establish a base year.
2. Create a basket of GOODS & SERVICES *(will be done for us on exams and labs)*
3. Establish what will the basket cost for each year

*Use base year QTY's for all calculation (Opposite of calculating real GDP)

YEAR	HOTDOG	HAMBURGER	GDP
2011 (base)	10 @ $2.00	20 @ $5.00	$120.00
2012	**(10)**12 @ $1.50	**(20)**15 @ $6.00	**($135)**$108.00

4. Divide each year year by base year # then X 100

Inflation Calculation	CPI *(Consumer Price Index)*
$120.00 / $120.00 X 100 =	100
$135.00 / $120.00 X 100 =	112.5

INFLATION RATE:

$$\frac{CPI2 - CPI1}{CPI1} \times 100$$

eg.

112.5 — 100 / 100 X 100 = 12.5%

———————————————————————————————————————

* Note when considering basket of G+S products change over time; ex. Iphones today didn't exist 20 years ago.

* Borrowers like **inflation** ; money become worth less over time.

* Lenders like **deflation** ; Money becomes worth more over time.

UNEMPLOYMENT

To be considered unemployed, you must meet all criteria:

- Over the age of 15
- Out of work
- Looking for a job
- Able to work
- Willing to work

EMPLOYMENT

To be considered employed, you must meet all criteria:

- You have a job
- Over the age of 15

Unemployed (U) + Employed (E) = Labour Force (LF)

Labour Force (LF) + Not n Labour Force (NLF) = Population

u = Unemployment rate

wap = working age population

Unemployment Rate (u) =

*** Does not calculate the (e) in reverse**

$$\frac{U}{LF} X100$$

Employment Rate (e) =

*** Calculates the employment rate, but is unrelated to the calculation of the unemployment rate.**

$$\frac{E}{wap} X100$$

Labour Force Populaton rate (LFPR) =

$$\frac{E}{wap} \times 100$$

TYPES OF UNEMPLOYMENT

- **Frictional:** Unemployed because your between jobs.
- **Structural:** You posses skills that the employer does not want / need.
- **Seasonal:** Unemployed due to the time of year.
- **Cyclical:** At certain parts of the business cycle, you are not required.

Natural rate of unemployment

——— is a subset of unemployment rate.

= Uf + Ust ÷ LF x 100