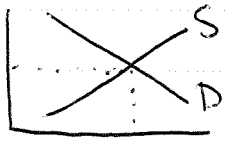
ECO1102 Midterm Exam Review

Ch.4 Supply & Demand



Demand:
- normal good: ↑ income ↑ demand
- inferior good: ↑ income ↓ demand
- substitutes: ↑ price of one ↑ demand of other
- complements: ↑ price of one ↓ demand of other

Supply:
- prices
- technology
- expectations
- # sellers

Ch.5 GDP: market value of all final goods/services produced within a country in a period of time

$$Y = \text{Consumption} + \text{Investment} + \text{Gov. purchases} + \text{Net Exports}$$

nominal GDP vs. real GDP
↳ current price ↳ constant base price

$$\text{GDP deflator} = \frac{\text{nominal GDP}}{\text{real GDP}} \times 100$$

$$\text{Inflation rate} = \frac{\text{GDP deflator yr. 2} - \text{GDP deflator yr. 1}}{\text{GDP deflator yr. 1}} \times 100$$

Ch. 6

$$CPI = \frac{\text{price of basket current yr}}{\text{price of basket base yr}} \times 100$$

$$\text{inflation rate} = \frac{CPI\ yr.\ 2 - CPI\ yr.\ 1}{CPI\ yr.\ 1} \times 100$$

problems:
- commodity substitution bias
  ↳ when price increases, use substitutes
- introduction of new goods
  ↳ increase choices makes $ more valuable to customer
- unmeasured quality change
  ↳ if quality changes, value of $ changes

GDP vs. CPI

- domestic
- currently produced to base yr.

- all products bought, no matter location
- price of fixed basket to basket base yr

nominal interest rate → without inflation
real interest rate → with inflation

$$\text{real} = \text{nominal} - \text{inflation rate}$$

Dollar from different time:
old price in new dollars = old price (CPI new yr / CPI old yr)

Ch. 7 Productivity

↳ quantity produced each hour of worker's time

- physical capital: equipment used to produce goods/services
- human capital: knowledge/skills of workers
- natural resources: inputs produced by nature
- technological knowledge: society's understanding of production

Economic Growth

- saving + investment → growth in long-term
- diminishing returns → benefit declines as quantity increases
- catch-up effect → poor countries grow quicker
- investment from abroad → FDI, FII
- education → creates positive externalities
- health + nutrition → healthier workers more productive
- property rights + political stability
- free trade
- research + development → private + public interest
- population growth → stretching natural resources

Ch. 8 Financial Markets → savers directly provide funds for borrowers

- bond → debt finance
- stock → equity finance

Financial intermediairies → savers indirectly provide funds for borrowers

- bank
- mutual funds

Ch. 8 continued...

$Y = C + I + G + NX$

closed economy $NX = 0$

$Y = C + I + G$

$\underbrace{Y - C - G}_{S} = I \quad \therefore S = I$

national saving (S) = income after $G + C$

T = taxes

$S = Y - C - G$

or $S = (Y - T - C) + (T - G)$

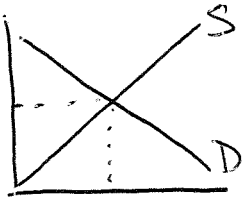
private saving public saving

budget surplus $T > G$

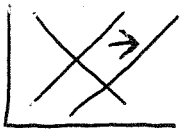
budget deficit $T < G$

Market for loanable funds:

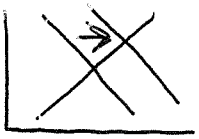
- supply → saving
- demand → investment
- price → interest rate



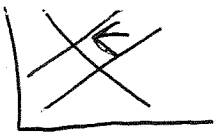
Saving incentives



Investment incentives



Gov. deficits + surpluses



crowding out = ↓ investment from gov. borrowing.