Macroeconomics

Introduction - chapter 4

An economy :- the government
- workers (consumers)
- entreprises, companies (producers)
- the banking system

Macroeconomics is the study of the entire economy.

3 main measures used to characterise/describe an economy at a certain moment in time and overtime.

- the value of income (PRODUCTION) (total, national, ~~aggregate~~)
- the value and the evolution of prices (measured by the inflation rate)
- the unemployment rate
  employment

Source: Statistics Canada

Describe a production process:

(inputs) resources	→	output (production)
labour		food
natural resources (land, wood, minerals, oil, wind, water)		clothing
technology		entertainment
physical capital: tools, equipment, machinery		houses
infrastructure (gov. agencies, roads, railways, hospitals, schools...)		medical services
		education
		national defense
		infrastructure

Define the Gross Domestic Product

= value of all final goods and services produced in an economy in a certain period (1 year).

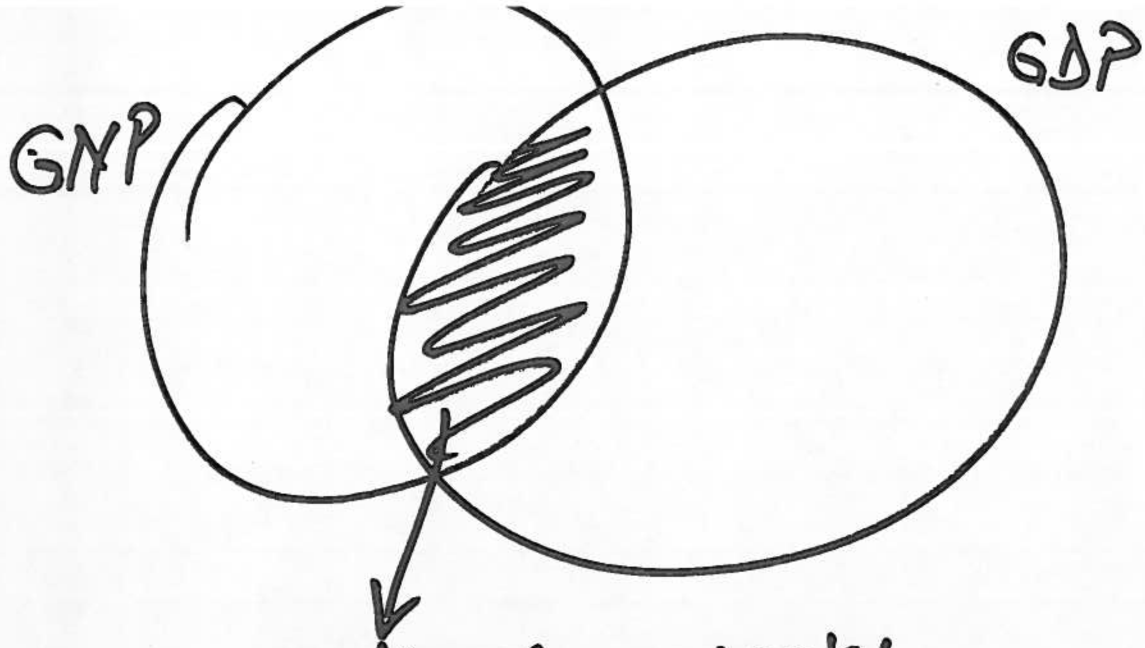
market
price x quantity sold

goods used by the ultimate consumer.

NOTE: the value of final goods includes the value of labour, materials, time used to ~~[illegible]~~ produce (obtain) those final goods.

GDP = value of production
= national income
= value of production produced by domestic producers (companies, suppliers located within the territory of the country)

GNP = value of national product (all domestic (national) companies regardless of location.



national companies
located in the domestic
country

GDP = prices × quantities

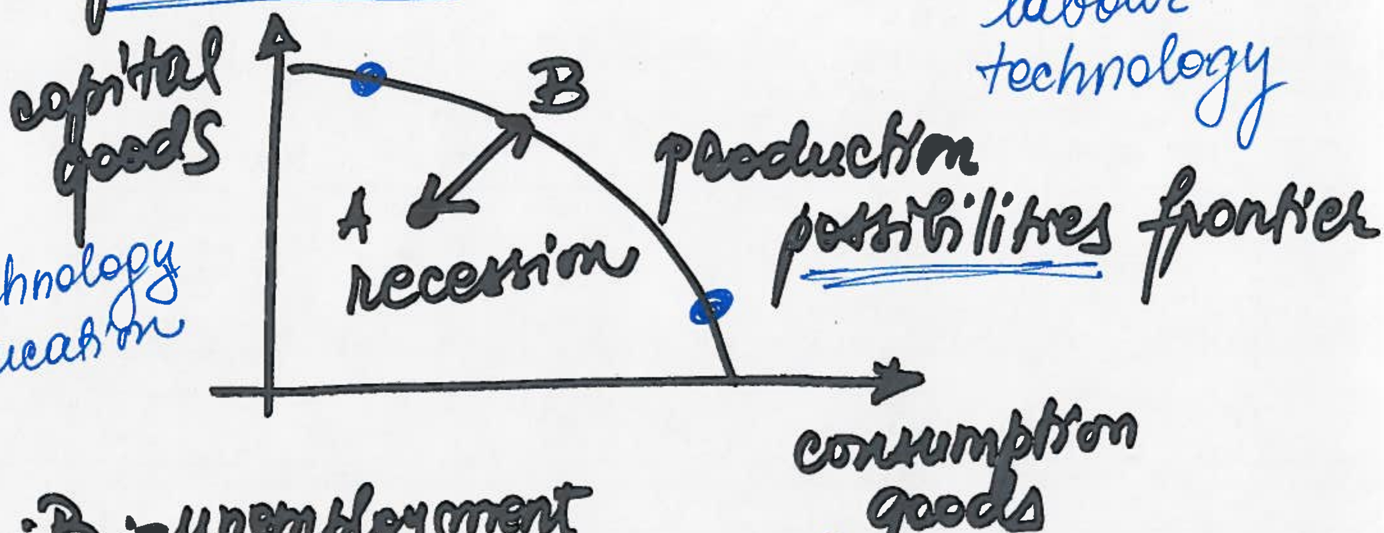
Q: what happens when prices and
production volumes change?

Chapter 4

What makes a country rich/developed and what makes a country poor/less developed?

Ability to use the available resources for production.

natural
labour
technology



- technology
- education

A → B: - unemployment rate

- economic growth

- food
- clothing
- gas, electricity
- medical services ...

$$\text{Unemployment rate} = \frac{\text{\# workers looking for job}}{\text{labour force}}$$

Labour force = adults able and willing to work → 16-65 adult population (16-65)

- in the labour force
  - employed
  - unemployed
- not in the labour force

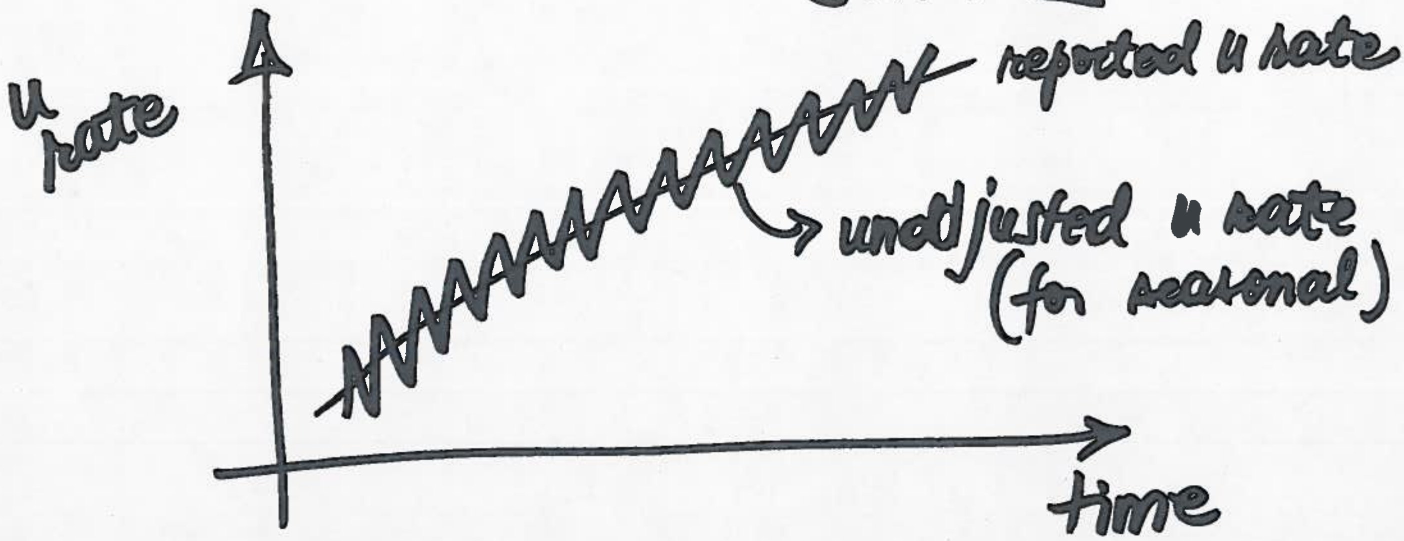
rate = $\frac{\#\,\text{employed}}{\text{adult population}} \cdot 100$

u rate = $\frac{\#\,\text{unempl}}{\text{labour force}} \cdot 100$

Natural unemployment – is natural to the economy, does not hurt the production capacity in the long run.

- seasonal: tourism, agricultural activities, construction industry
- frictional: between jobs, looking for a better job, better benefits
- structural: workers who do not know how to work with a new technology.

remedy: training
may lead to SECTORAL
SHIFTS



u. rate : 7.1%
Dec 2015
part of it is natural unemployment:
frictional + structural. ≈ 5-6%
seasonal u is excluded from 7.1%
The difference 7.1% − 6% = 1.1%
is cyclical unemployment
not because of frictional, lack of skills
but because of the recession (the
economy is not working well)

Production ~~is~~ demand driven

↳ the output produced needs to be sold!

When calculating the value of production, we could look at (calculate) the value of everything that consumers / buyers want to buy.

GDP

We calculate the value of production (GDP) by calculating the value of the goods and services buyers buy.

The elements that we consider when calculating TOTAL (AGGREGATE) expenditure are:

- households (consumers): C
- producers (companies): I (investment)

(factors of production, inputs, machinery, tools technology that are used in production)

- government : G (government spending)
  public goods and services
- foreign buyers : EXPORTS

Minus IMPORTS = value of domestic spending on foreign goods

$$GDP = C + I + G + \underbrace{exports - imports}_{NX}$$