Economics
Macroeconomics: Tracking the Economy

Key Terms

**GDP**

- **Gross Domestic Product**- dollar value of all final goods, services, and structures produced within a country's national borders during a one-year period

- **Implicit GDP Price Deflator**- index used to measure price changes in gross domestic product

- **Current GDP**- gross domestic product measured in current prices, unadjusted for inflation

- **Real GDP**- GDP after adjustments for inflation (same as constant collar GDP)

- **GDP in Constant Dollars**- GDP after adjustments for inflation

- **Gross National Product**- total dollar value of all final goods, services, and structures produced in one year within labor and property supplied by a country's residents, regardless of where the production takes place, largest measure of national income

- **Per Capita GDP**- the value of goods and services produced per household in a given period of time. Comparing per capita incomes helps explain the standard of living in an area or country.

**Inflation**

- **Inflation**- rise in the general level of prices

- **Deflation**- a decrease in the general price level

- **Creeping Inflation**- inflation in the range of 1 to 3 percent a year

- **Galloping Inflation**- inflation of 100 to 300 percent a year

- **Hyperinflation**- inflation that ranges from 500 percent and above a year

- **Stagflation**- combination of stagnant economic growth and inflation

**Price Index**

- **Price Index**- statistical series used to measure changes in the price level over time

- **Base Year**- year serving as point of comparison for other years in a price index or other statistical measure
· **Market Basket** – representative collection of goods and services used to compile a price index

· **Consumer Price Index** – index used to measure price changes for a market basket of frequently used consumer items

· **Producer Price Index** – index used to measure prices received by domestic producers

**Population**

· **Census** – complete count of population, including place of residence

· **Urban Population** – those persons living in incorporated cities, towns, and villages with 2,500 or more inhabitants

· **Rural Population** – those persons not living in urban areas

· **Demographer** – person who studies growth, density, and other characteristics of the population

· **Real GDP Per Capita** – gross domestic product adjusted for inflation and divided by the total population

· **Labor Productivity** – growth rate of total output per unit of labor input

· **Per capita spending** – spending per household or individual

· **Public Sector** – that part of the economy made up of the local, state, and federal governments

· **Private Sector** – that part of the economy made up of private individuals and businesses

· **Standard of Living** – quality of life based on ownership of necessities and luxuries that make life easier

· **Welfare** – economic and social programs that provide regular assistance from the government or private agencies because of need

· **Civilian Labor Force** – Non-military people who are willing and able to work.

**Business Cycles**

· **Recession** – a period in which real GDP declines for two quarters in a row, or six consecutive months

· **Expansion** – a period of recovery from recession

· **Depression** – a state of the economy in which a large number of people are out of work
· **Peak** - The point at which the expansion reaches its high point and before a contraction begins.

· **Trough** - The lowest point that the cycle reaches after a contraction and before it begins to expand again.

· **Contraction** - A period when the economy slows. If it lasts six months or longer it is called a recession.

NOTE you may see the terms downturn for contraction or upturn for expansion

**Employment and Unemployment**

· **Unemployment Rate** - the number of unemployed individuals divided by the total number of members in the civilian work force

· **Frictional Unemployment** - unemployment caused by workers who are between jobs for one reason or another

· **Structural Unemployment** - unemployment that occurs when a fundamental change in the operations of the economy reduces the demand for the workers and their skills

· **Seasonal Unemployment** - unemployment that results from changes in the weather or changes in demand for certain products

· **Technological Unemployment** - is caused when workers with less skills, talent, or education are replaced with machines that do their work more efficiently

· **Labor Force** - people over the age of 16 who are willing and able to work. Full time students, homemakers, and retired people are not counted in the statistic.

· **Underemployed** - people who work part time but would prefer full time employment. People who are working in jobs that do not require or use their skills or training.

**Measures**

· **Misery Index** - unofficial statistic that is the sum of monthly inflation and the unemployment rate

· **Discomfort Index** - unofficial statistic that is the sum of monthly inflation and the unemployment rate, used to unofficially to assess a nation’s economic health

· **Laffer Curve** - graph showing that lower tax rates will supposedly stimulate higher tax revenues

· **Wage-Price Controls** - policies and regulations making it illegal for firms to give raises or raise prices
· **Index of Leading Indicators** - a monthly statistical series that usually turns down before real GDP turns down, and turns up before the real GDP turns up

· **Growth Triangle** - table showing the rates of growth of a statistical series between any two dates

**Aggregate Demand**

· **Aggregate Supply** - the total value of all goods and services that all firms would produce in a specific period of time at various price levels

· **Aggregate Supply Curve** - hypothetical curve showing different levels of real GDP that could be produced at various price levels

· **Aggregate Demand** - the total value of all goods and services demanded at different price levels

· **Aggregate Demand Curve** - hypothetical curve showing different levels of real GDP that could be purchased at various price levels

**Economic theory**

· **Fiscal Policy** - use of government spending and revenue collection measures to influence the economy

· **Keynesian Economics** - government spending and taxation policies suggested by John Maynard Keynes to stimulate the economy

· **Supply-Side Economics** - economic policies designed to increase aggregate supply or shift the aggregate supply curve to the right

· **Monetarism** - school of thought stressing the importance of stable monetary growth to control inflation and stimulate long-term economic growth

**Budget**

· **Federal Budget** - annual plan outlining proposed expenditures and anticipated revenues

· **Mandatory Spending** - federal spending authorized by law that continues without the need for annual approvals of Congress

· **Discretionary Spending** - spending for federal programs that must receive annual authorization

· **Federal Budget Deficit** - excess of federal expenditures over tax and revenue collections

· **Federal Budget Surplus** - federal budget that shows a positive balance after expenditures are subtracted from revenues
· **Intergovernmental Expenditures**-funds that one level of government transfers to another level for spending

· **Deficit Spending**-annual government spending in excess of taxes and other revenues

· **Federal Debt**-total amount of money the federal government has borrowed from others

· **Balanced Budget**-annual budget in which expenditures equal revenues

· **Gramm-Rudman-Hollings Act (1985)**- this act aimed at cutting the budget deficit

· **Budget Enforcement Act (1990)**- enforce the deficit reduction accomplished by law and revise the budget control process of the Federal Government

· **Omnibus Budget Reconciliation Act (1993)**- changed income tax for US citizens

· **Balanced Budget Agreement (1997)**-another agreement on how to balance the budget

· **Line-Item Veto**-power to cancel specific budget items without rejecting the entire budget

· **Spending Caps**-limits on annual discretionary spending

· **Entitlements**-program or benefit using established eligibility requirements to provide health, nutritional, or income supplements to individuals

· **Council of Economic Advisors**-three member group that devises strategies and advises the President of the United States on economic matters

· **Budget Surplus** - Annual government revenue is greater than government spending.