Day 21

- Unemployment, Inflation, Business Cycle GDP determination
- GDP is the value of final production produced; Everything produced is purchased
- Expenditure = Income
- National Income = Total Income generated
- PI is gross income of everybody
    - Everything goes to households outside of corporate profits
    - Different Forms of business
        - Corporation
            - Corporations pay corporate taxes that do not go to the households
            - Retain some earnings (Invest them again)
            - Some goes to social security
            - PI = NI – (Corporate Income + Corporate Social Security + Retained) + Transfer Payments
            - What DOES go to houses are dividends, money distributed to shareholders
                - People don't really by stock for dividends
                - Speculate
            - Transfer Payments
                - Income earned not from production (Used car, sell)
                - Nothing produced
                - Added to personal income
    - Disposable Income
        - Total Net Pay of Everybody
        - PI – PT = DI
        - Personal Income – Personal Taxes

Day 22

- Limitations of GDP
- GDP tells value of final products…
    - GDP does not count non-market transactions
        - Mother taking care of a child is not counted
        - Nanny taking care of a child does count
        - Service is the care of the child

- Doesn't count underground economy (Estimated around 8% of economy)
    - Paying someone to put roof on a house
    - Roof goes on, but isn't counted
  - If you produce more, is the quality better?
    - Doesn't measure whether activity is beneficial; only measures how much is produced
- GDP: Price x Quantity
  - Nominal GDP (Inflation)
  - Real GDP (Subtracts inflation from picture)
    - GDP per Capita
- Gross vs Net Investment
  - Net is Gross – Depreciation

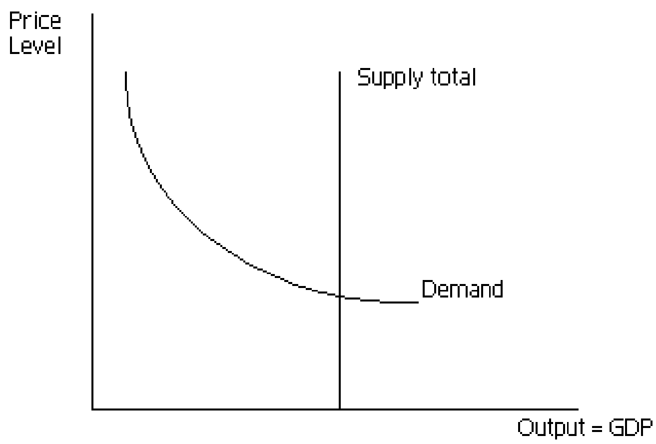
<u>Day 23</u>

- <u>Inherently</u>, capitalistic economies are stable?
  - Classical Economists
- What explains instability?
  - The world is unstable
  - Wars, market disruptions, bank failure
- Economy is also self-correcting
- History is external forces bombarding economy
- These were the thoughts until the great depression
  - Laissez Faire (Let them be)
  - Effected Millions of people
  - Permeated policy makers until the great depression
  - Public will not accept laissez faire
- How did classical economists explain this?

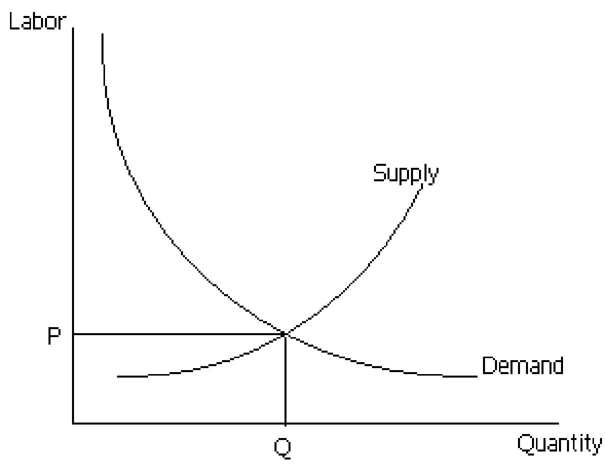
<u>Day 24</u>

- Behavior of macro economy
  - Level of GDP = Level of production
- Business cycle is unstable
- Why is it unstable?
- What do we do?
- What should we do?
- Classical Model
  - Economy is inherently stable

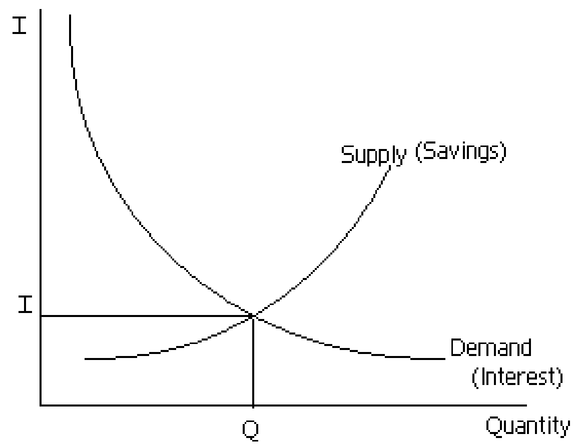
- World is unstable
- External factors
- Things happen that “Panic” people
- Economy is also self-correcting
  - Policy implication: Laissez Faire
  - What they do until the Great Depression
- There are those who adhere to classical model today; neo-classical economists
- Self Correcting
  - Say’s Law: in a free market economy goods and services are produced for exchange with other goods and services, and in the process a precisely sufficient level of real income is created in order to purchase the economy's entire output.
    - Supply Creates its own demand
  - Thus producers would want to produce as much as they could
  - Prices would fluctuate so people are willing to buy total output



- Firms need labor enough to produce output
- At equilibrium; Total number of people wanting a job = total number of jobs
  - Natural rate of unemployment



- What if someone saves?
  - Market for loanable funds
  - Price of money is the interest rate



- Market for savings
- Macro Economy is thus at equilibrium
- Something bad happens, people panic
  - Demand for goods and services goes down
  - Demand for labor goes down
  - Supply of savings goes up
  - Surplus of:
    - Goods and services
    - Labor
    - Loanable Funds
  - All work out…
    - Overall price level falls
    - Firms supply less
    - Wages fall, quantity supplied = Quantity demanded
    - Interest goes down
    - New equilibrium – Flexibility of prices helps
- What if you count on this?