Study Guide 1 – Economics 1002

1. Define Economics. What is the difference between microeconomics and macroeconomics?
2. What is the difference between the Keynesian and Classical approach to economics?
3. What do we mean by GDP?
4. What is the difference between the income and expenditures approach to GDP. What do we mean by value added? Are intermediate goods counted in the final price?
5. Be sure to know all the factors that are included in GDP.
6. What is gross versus net investment?
7. What is the difference between GDP and GNP?
8. Some economists have argued that the level of GDP (or GNP) is not an accurate measure of the welfare of the economy. Give three examples why this argument can be made.
9. Be sure to be able to calculate both nominal and real GDP.
10. Make sure you understand the concept of an intermediate good and how it gets calculated in GDP.
11. What do we mean by the GDP deflator. How is it calculated?
12. Be sure to understand the difference between nominal and real values.
13. What are the phases of the business cycle?
14. How do we define a recession?
15. How do we calculate the unemployment rate? Explain at least three different types of unemployment. Give examples of each.
16. Does the full employment rate of output mean everyone has a job? Explain
17. What is inflation, deflation and disinflation?
18. What is hyperinflation?
19. What do we mean by cost-push inflation? What do we mean by demand-pull inflation? Give examples of each.
20. What do we mean by the Consumer Price Index? What do we hold constant when comparing the cost of a market basket of goods if we are using the CPI.
21. I If you are told that the CPI was 150 in 2000 and the CPI was 195 in 2009, what was the rate of inflation from 2000 to 2009?
22. What is the difference between economic growth and economic development?
23. What do we mean by the Rule of 70? Give an example.
24. Explain poverty to someone who has always lived in a developed country.
25. What do we mean by human capital? How does human capital affect development?
26. Understand the aggregate production function for the economy and also understand what factors that affect productively.
27. What do we mean by the real wage rate?
28. What do we mean by the growth accounting equation.
29. What factors affect total factor productivity?

30. Be able to calculate the value of %ΔA (percentage change in TFP) in the growth equation if you are given the rest, %ΔY, %ΔK, and %ΔL.

The Steps of Growth Accounting: A Numerical Example

Growth accounting

– Four steps in breaking output growth into its causes (productivity growth, capital input growth, labor input growth)

- Get data on $\Delta Y/Y$, $\Delta K/K$, and $\Delta L/L$, adjusting for quality changes
- Estimate a_K and a_L from historical data
- Calculate the contributions of K and L as $a_K\,\Delta K/K$ and $a_L\,\Delta L/$L, respectively
- Calculate productivity growth as the residual: $\Delta A/A = \Delta Y/Y - a_K\,\Delta K/K - a_L\,\Delta L/L$

Step 1. Obtain measures of output growth, capital growth, and labor growth over the period to be studied.

Example:

$$\text{output growth} = \frac{\Delta Y}{Y} = 40\%;$$

$$\text{capital growth} = \frac{\Delta K}{K} = 20\%;$$

$$\text{labor growth} = \frac{\Delta N}{N} = 30\%.$$

Step 2. Using historical data, obtain estimates of the elasticities of output with respect to capital and labor, a_K and a_N.

Example: $a_K = 0.3$ and $a_N = 0.7$.

Step 3. Find the contributions to growth of capital and labor.

Example:

$$\text{contribution to output growth of growth in capital} = a_K \frac{\Delta K}{K} = 0.3 \times 20\% = 6\%;$$

$$\text{contribution to output growth of growth in labor} = a_N \frac{\Delta N}{N} = 0.7 \times 30\% = 21\%.$$

Step 4. Find productivity growth as the residual (the part of output growth not explained by capital or labor).

Example:

$$\text{productivity growth} = \frac{\Delta A}{A} = \frac{\Delta Y}{Y} - a_K \frac{\Delta K}{K} - a_N \frac{\Delta N}{N}$$

$$= 40\% - 6\% - 21\% = 13\%.$$