

EC132.02

Principles of Macroeconomics

Boston College

Thursday, January 24

Reminder and Announcement

First Aplia homework assignment due tonight/
tomorrow: Friday, January 25, at 9am.

Second Aplia homework on Supply and Demand
due next Friday, February 1, at 9am.

Today: Ch 23 Measuring a Nation's Income

3 Principles of Macroeconomics

1. The Classical Dichotomy

- Real versus nominal variables.

2. The Long-Run Neutrality of Money

- In the long run, changes in money affect nominal but not real variables.

3. The Phillips Curve

- But in the short run, there may be important linkages between real and nominal variables.

Course Outline

B. The Data of Macroeconomics

2. Measuring a Nation's Income (Ch.23)
3. Measuring the Cost of Living (Ch.24)

C. The Real Economy in the Long Run

4. Production and Growth (Ch.25)
5. Saving, Investment and the Financial System (Ch. 26)
6. Unemployment (Ch.28)

Course Outline

D. Money and Prices in the Long Run

7. The Monetary System (Ch.29)
8. Money Growth and Inflation (Ch.30)

E. Short-Run Aggregate Fluctuations

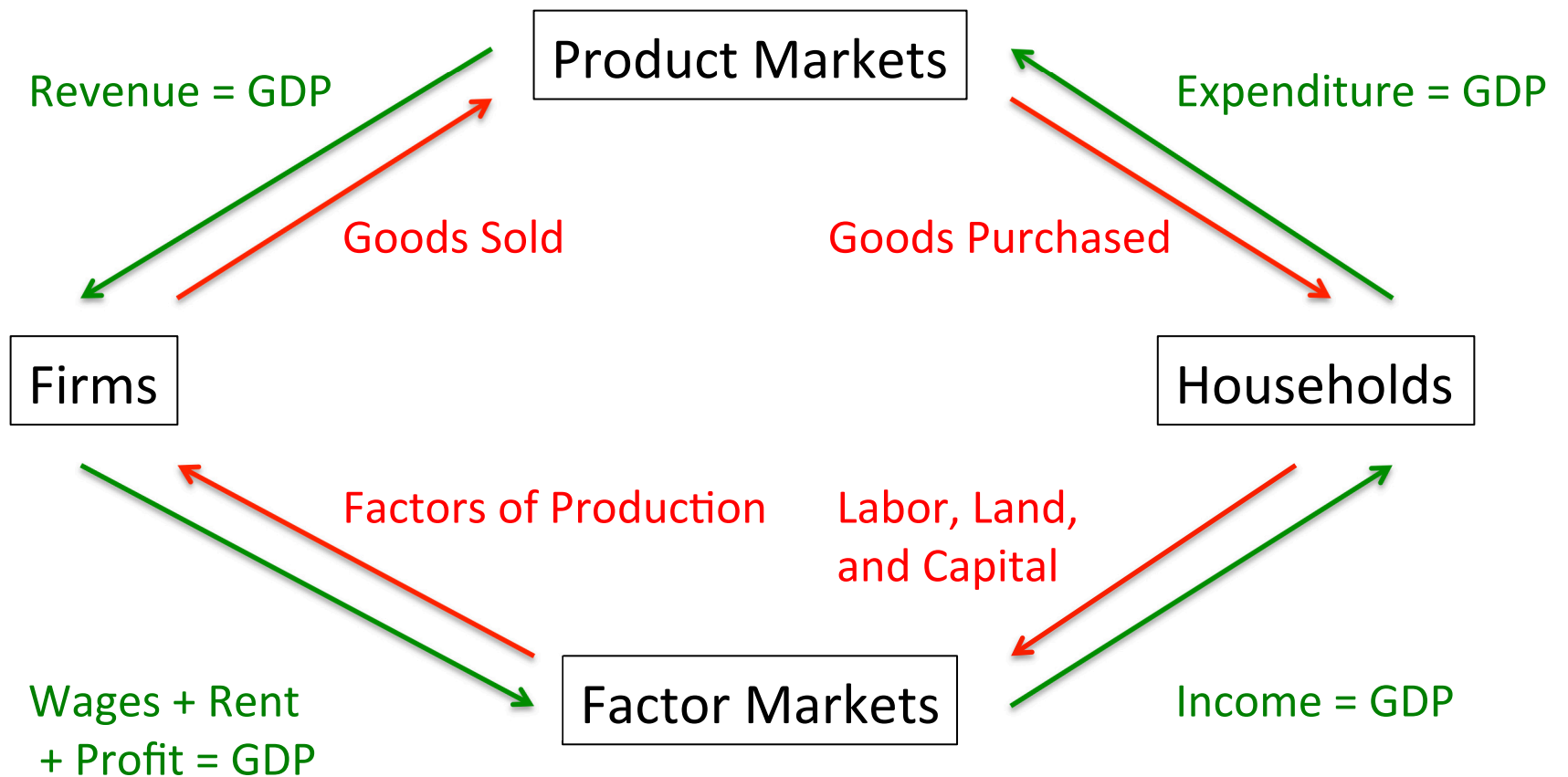
9. Aggregate Demand and Aggregate Supply (Ch.33)
10. The Short-Run Trade-off between Inflation and Unemployment (Ch.34)

Ch 23 Measuring a Nation's Income

1. Income and Expenditure
2. Measuring GDP
3. The Components of GDP
4. Real and Nominal GDP
5. GDP and Economic Well-Being

Income and Expenditure

The Circular Flow Diagram



Income and Expenditure

The circular flow diagram ignores:

1. Firms that buy goods from other firms.
2. Governments that purchase goods.
3. Foreign firms that sell goods to US consumers.
4. US firms that sell goods to foreign consumers.

But we will fill in these details as we proceed through our analysis.

Measuring GDP

Gross Domestic Product (GDP) =

The market value of all final goods and services produced within a country in a given period of time.

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Because “you can’t add apples and oranges.”

Measuring GDP

Gross Domestic Product (GDP) =

The market value of **all** final goods and services produced within a country in a given period of time.

GDP attempts to be a comprehensive measure of a nation's income.

Measuring GDP

Gross Domestic Product (GDP) =

The market value of all **final** goods and services produced within a country in a given period of time.

Excludes intermediate goods to avoid double counting.