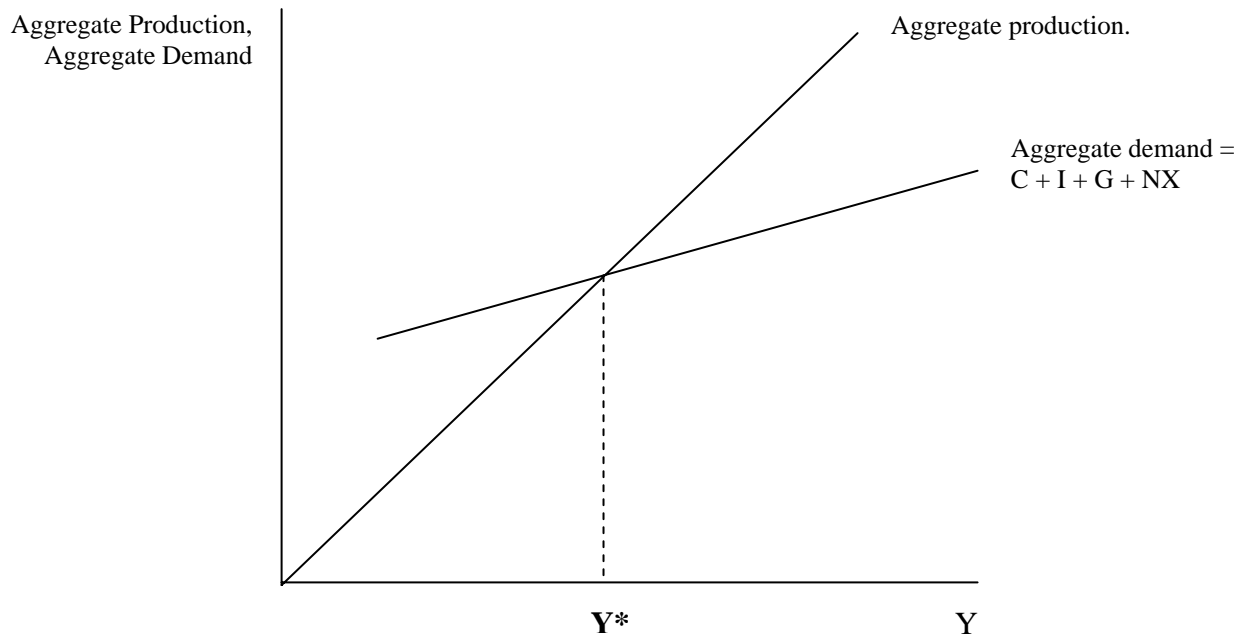


## What You Should Remember from Econ 1

1. GDP is simultaneously a measure of aggregate production or output, aggregate income, and aggregate spending.
2. The unemployment rate is not a perfect indicator of unemployment or of the amount of available labor resources in the economy. Indeed, it likely understates the “true” amount of unemployment.
3. The consumer price index is not a perfect indicator of the price level or inflation. Indeed, it likely overstates the “true” amount of inflation.
4. In the simple Keynesian model, aggregate planned expenditures or aggregate demand is given by  $C + I + G + NX$
5. In equilibrium, the simple Keynesian model planned expenditures (or aggregate demand) equals actual aggregate production (or output) so that  $Y = C + I + G + NX$  and is given graphically by:



6. The adjustment process when there is a macroeconomic disequilibrium is an output adjustment.
7. Consumption,  $C$ , refers to the spending done by households.
  - a. Consumption increases with disposable income,  $Y_D$ .
  - b. Disposable income,  $Y_D$ , is the after-tax income received by households.
  - c. The change in consumption is smaller than the change in disposable income, i.e., the marginal propensity to consume is less than 1.
  - d. There are other variables that affect consumption as well.

8. Investment, I, refers to the spending done by business to increase the capital stock and on inventories (but not on intermediate goods).
  - a. The capital stock includes all of the productive physical resources of the economy including structures, equipment and software, and goods in inventory.
  - b. Financial assets such as money, stock, and bonds are not included in the capital stock.
  - c. Investment is inversely relative to interest rates.
  - d. There are other variables that help determine investment.
9. Government purchases of goods and services, the G in  $C + I + G + NX$ , do not include all government spending. Transfer payments and interest payments on the national debt are excluded.
  - a. The government's budget balance is the difference between its receipts and its expenditures.
    - i. When receipts exceed expenditures, the government has a budget surplus.
    - ii. When expenditures exceed receipts, the government has a budget deficit.
  - b. The government's debt is the sum of its budget balances over time.
10. Fiscal policy is the changes in government purchases, transfer payments, and/or tax payments to achieve macroeconomic goals.
11. Monetary policy is the changes in the money supply or interest rates by the nation's central bank to achieve macroeconomic goals. The central bank in the United States is the Federal Reserve System or the Fed.
12. Economists assume that individuals and households wish to maximize their utility and that firms wish to maximize profits.
13. Perfectively competitive markets are characterized by many indistinguishable firms producing a homogeneous product. Prices rapidly adjust to eliminate any excess demand or supply.