**Unit 3 Macroeconomics Study Guide**

1. **Be able to define the economic tools used to measure the economy**
   1. **Nominal GDP – Gross Domestic Product – Consumer, Investment, Government, Exports, Imports**

**C plus I plus G plus Net Exports(exports minus imports) ( Be able to calculate GDP)**

**Know things that don’t count in GDP ( military, prisoners, older houses, stocks, transfer payments like social security, welfare, intermediate goods)**

* 1. **Real GDP – adjust for inflation**
  2. **CPI – Consumer Price Index – Use market basket which are items that consumers spend money on – CPI is a whole number and inflation is a percentage.**
  3. **Inflation Rate - You go from 100 to whatever the CPI is.**

**For example: 100 to 104 is 4% inflation, 100 to 95 would be -5%**

* 1. **Unemployment – Structural, Seasonal, Cyclical, Seasonal**

1. **Know the differences between structural, cyclical, seasonal and frictional unemployment and who counts towards unemployment rates and who doesn’t.**

**Structural – technology is replacing people**

**Seasonal – work during a certain season only**

**Cyclical – layed off, cut backs, during a recession**

**Frictional – Between jobs, but looking for a job , just graduated college, looking for a better job**

**Unemployed – anyone looking for work**

**Don’t count in labor force - Discouraged workers, stay at home moms or dads**

**Be able to calculate the unemployment rate. - Formula for calculating unemployment rate - Unemployed divided by labor force**

1. **What are aggregate demand and aggregate supply? Aggregate demand is total for all goods and services in a country and aggregate supply is the total supply of all goods and services in a country**
2. **Who benefits and who loses from unanticipated inflation?**

**Benefits -Borrowers benefit/People who have a debt or a loan to pay back at a fixed rate will benefit**

**Loses - lenders are hurt/savers, people on fixed income like retirees.**

1. **Define the stages of the business cycle and be prepared to label them on a blank model**

**Expansionary – inflation going up unemployment is low**

**Peak -**

**Contractionary – Inflation going down, unemployment is going up - 2 consecutive quarters of deflation is a recession**

**Trough -**

1. **What is the Federal Reserve, how many districts are there, what is the FOMC and the Board of Governors ?**
2. **It controls the banks and how much money they have to hold in reserve and how much they can lend out to consumers and businesses**

**12 districts,**

**FOMC – Federal Open Market Commission**

**Jerome Powell is the Federal Chairman**

1. **Define Monetary policy.**

**Federal Reserve controls money supply by controlling with OMO, discount rates, Reserve Requirement, interest on reserves**

1. **What are the four most popular tools of Monetary policy that the Fed uses? OMO, Reserve Requirements, Discount/Interest Rate, Interest on Reserves**
2. **Describe each of the monetary policies and how they are used during expansionary and contractionary periods. – Look at chart for this**
3. **Define Fiscal Policy – Government controls fiscal policy which is taxing and spending to control money in the economy**
4. **What are the two tools the Government can use for Fiscal Policy? Taxing and spending**
5. **How are these two tools used to promote price stability, full employment and economic growth? To fight inflation they would use a contractionary policy and to fight a recession they would use an expansionary policy – Look at chart for this**
6. **What is the difference between deficit and debt, and how does a deficit/surplus impact national debt?**

**Deficit - means we spent more than we raised for a year**

**Debt – is the running total of how much money we owe**

**Surplus- more money left than was spent and can put it toward debt to pay it off.**