

Econ 522, 01/18/2018

Measuring the Macroeconomy

Macroeconomics

- Study of the forces that influence the economy as a whole; the study of people and firms and how their interactions through markets determine the overall economic activity in a country or region.
- Encompasses a broad range of topic and questions.
- Macroeconomist use data and models to study the macroeconomy.

Three Major Macroeconomic Variables

- Gross Domestic Product (measures output, income, and expenditures)
- Price Level (used to calculate inflation rate)
- Unemployment Rate

Finding Macroeconomic Data

- FRED
- BEA, BLS, Census

Gross Domestic Product

- Definition: *The market value of all final goods and services produced within an economy in a given time period.*
 - Market value = price of a product
- Nominal GDP: sum of the quantities of final goods produced multiplied by their *current* prices.
- Real GDP: sum of the quantities of final goods produced multiplied by their *constant* prices.

- GDP measures three things.
 - Production
 - Income
 - Expenditure
- By definition, those three things will come out to be the same amount.

Measures of the Overall Price Level

- Consumer Price Index (CPI): the price of a set basket of goods and services purchased by a typical urban household relative to the price of the same basket in some base year.
- Producer Price Index (PPI): measures the price of a typical basket of goods purchased by firms rather than by consumers.
- GDP Deflator: measures the price of output relative to its price in the base year.

- Personal Consumption Expenditures (PCE) Deflator: like the GDP deflator, but for just the consumption component of GDP.
- Core Measures: exclude food and energy prices, which tend to be more volatile.