

Economics

- Microeconomics – study of individuals and the economy



- Macroeconomics – study of large organizations and countries and the economy



- Finance – study of investment and credit



Why does Macro matter?

- Besides an A and a 5 ...
- All of our decisions determine the fate of the nation's economy.
 - Can you afford to buy a new car?
 - Is now a good time to change jobs?
 - Should you take a risk in the stock market or keep your money safe in the bank?
- Understanding macroeconomics helps you make better economic decisions!



Gross Domestic Product

- A measure of a country's economy in a given time (usually a year or quarter)



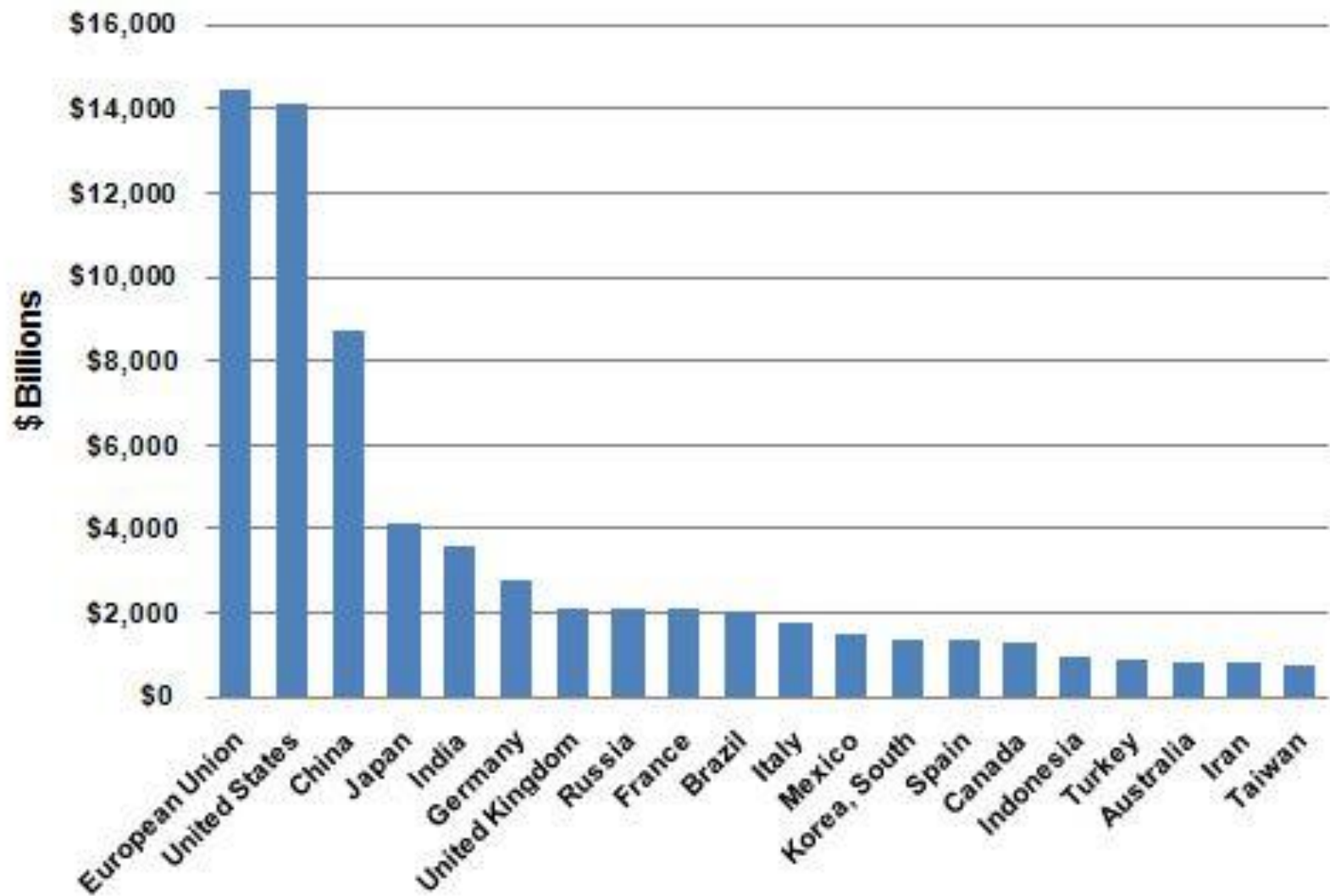
2007 Top 10 World Economies

Gross domestic product (current prices) in millions of US dollars | 2007

RANK	COUNTRY/ECONOMY	HARD DATA
→ 1	United States	13,843,825
2	Japan	4,383,762
3	Germany	3,322,147
4	China	3,250,827
5	United Kingdom	2,772,570
6	France	2,560,255
7	Italy	2,104,666
8	Spain	1,438,959
9	Canada	1,432,140
10	Brazil	1,313,590



GDP by Region/Country, World Markets: 2009



(Source: CIA, World Factbook)

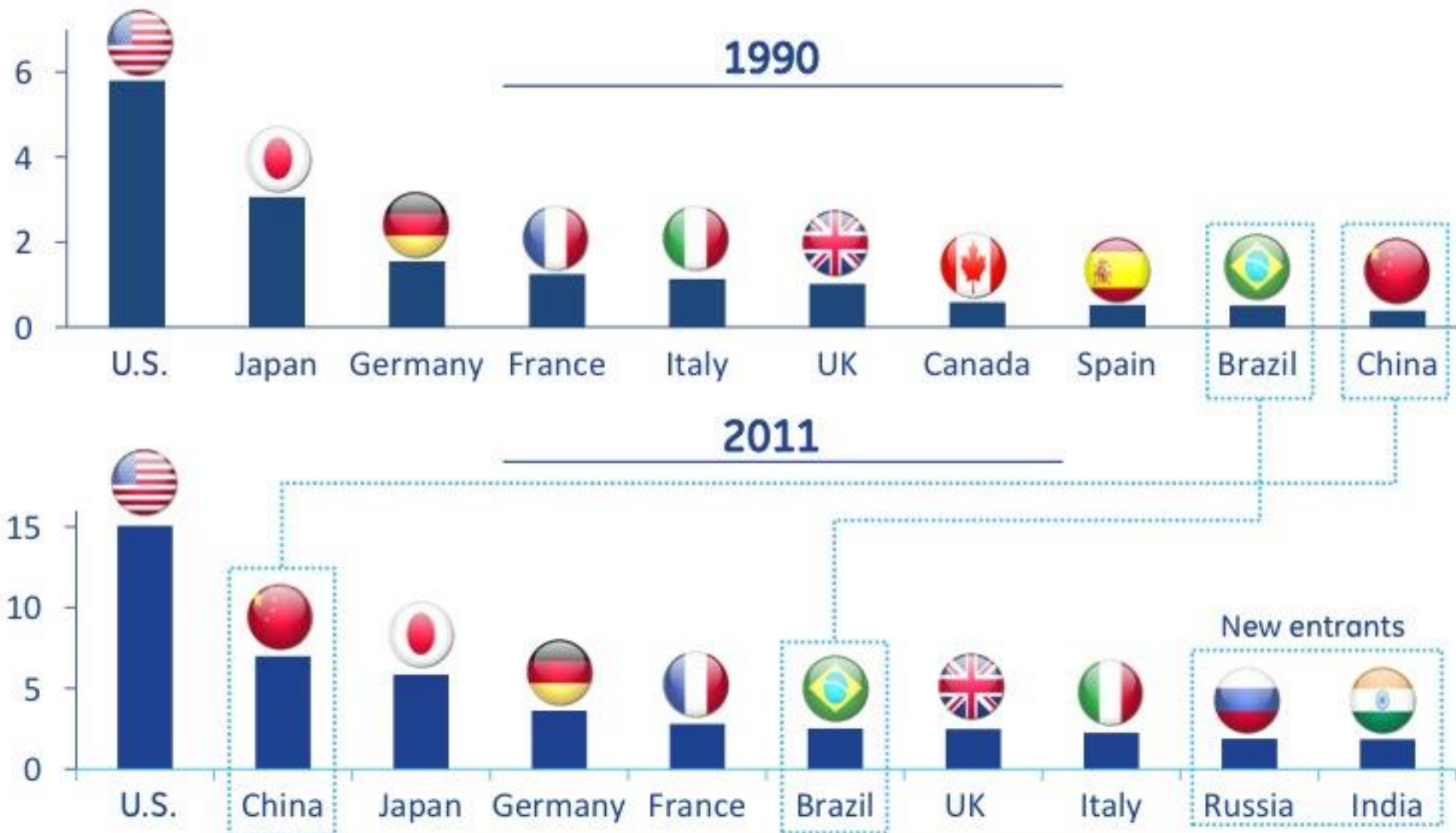
World's Largest Economies in 2010

Rank	Country	GDP, \$Billion
1	United States	14,552
2	China	5,878
3	Japan	5,458
4	Germany	3,315
5	France	2,582
6	United Kingdom	2,247
7	Brazil	2,090
8	Italy	2,055
9	Canada	1,574
10	India	1,537
11	Russia	1,465
12	Spain	1,409
13	Australia	1,235
14	Texas	1,207
15	Mexico	1,039
16	South Korea	1,007

Sources: International Monetary Fund and U.S. Bureau of Economic Analysis

Changing economies – top 10

(\$ trillion, GDP in current U.S.\$)



**Markets constantly evolving ... growth
markets ~50% of GDP by 2025**

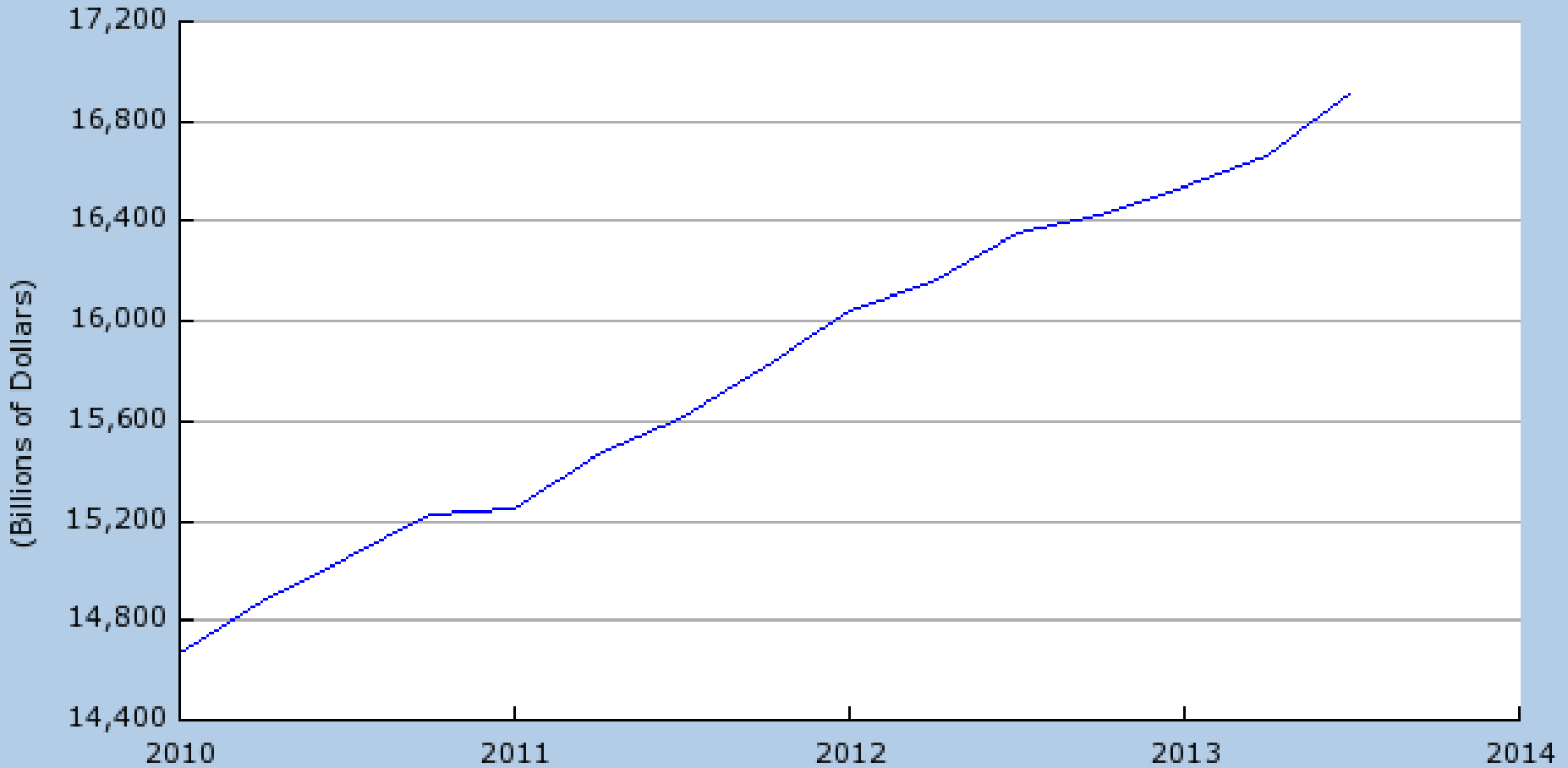
Agree: Stand up

US economy
is growing

Disagree: Stay seated

Gross Domestic Product (GDP)

Source: U.S. Department of Commerce: Bureau of Economic Analysis

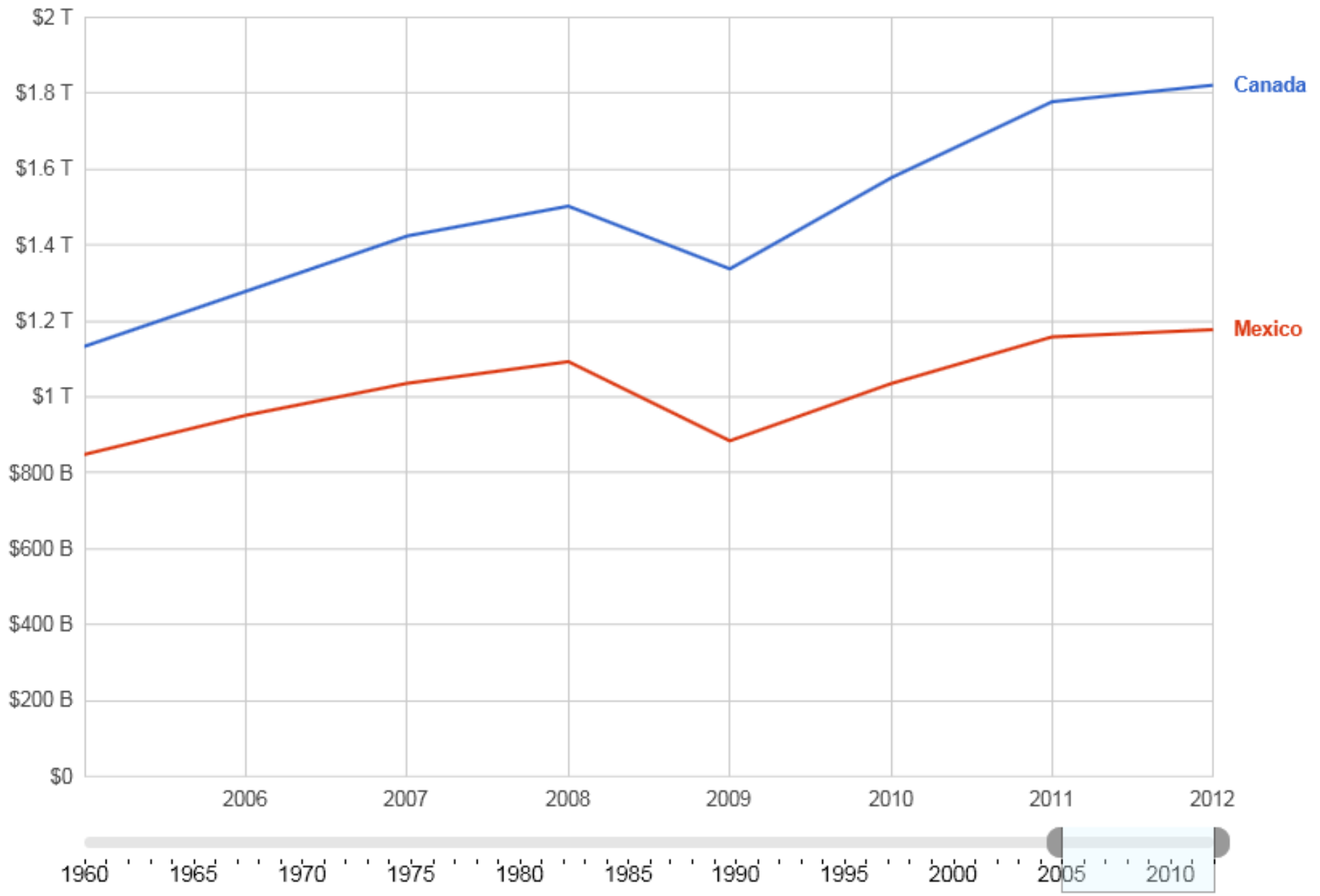


Agree: Stand up

Mexico's economy
is bigger than
Canada's

Disagree: Stay seated

Gross Domestic Product ?

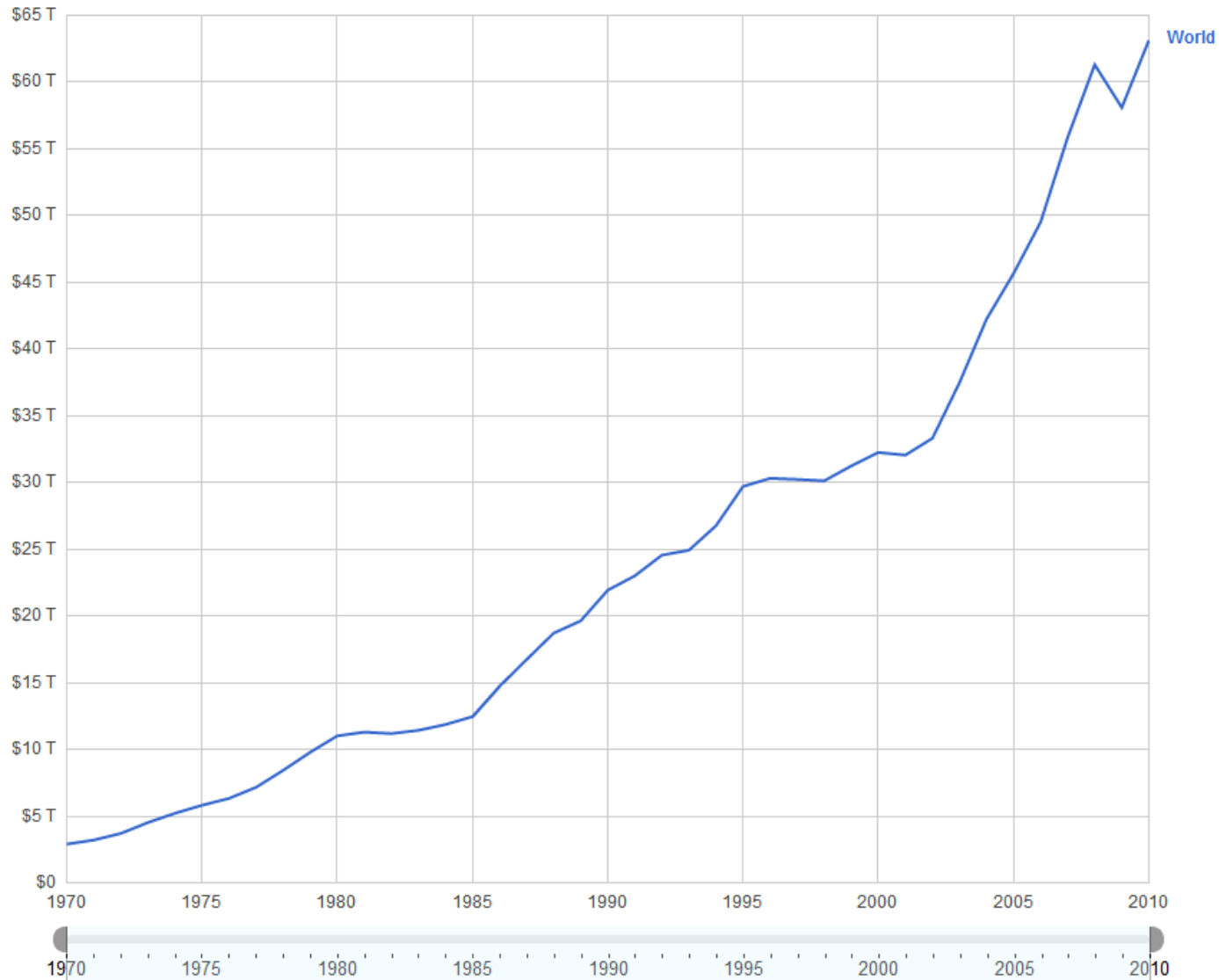


What is GDP?

- GDP is the market value of all final goods and services produced within a nation in a given time period.
 - Must be final rather than intermediate.
 - Must be produced during the time period, regardless of when it is sold.
 - Must be produced within the nation's borders.

How do we calculate GDP?

Gross Domestic Product ?



Data from [World Bank](#) Last updated: Mar 30, 2012

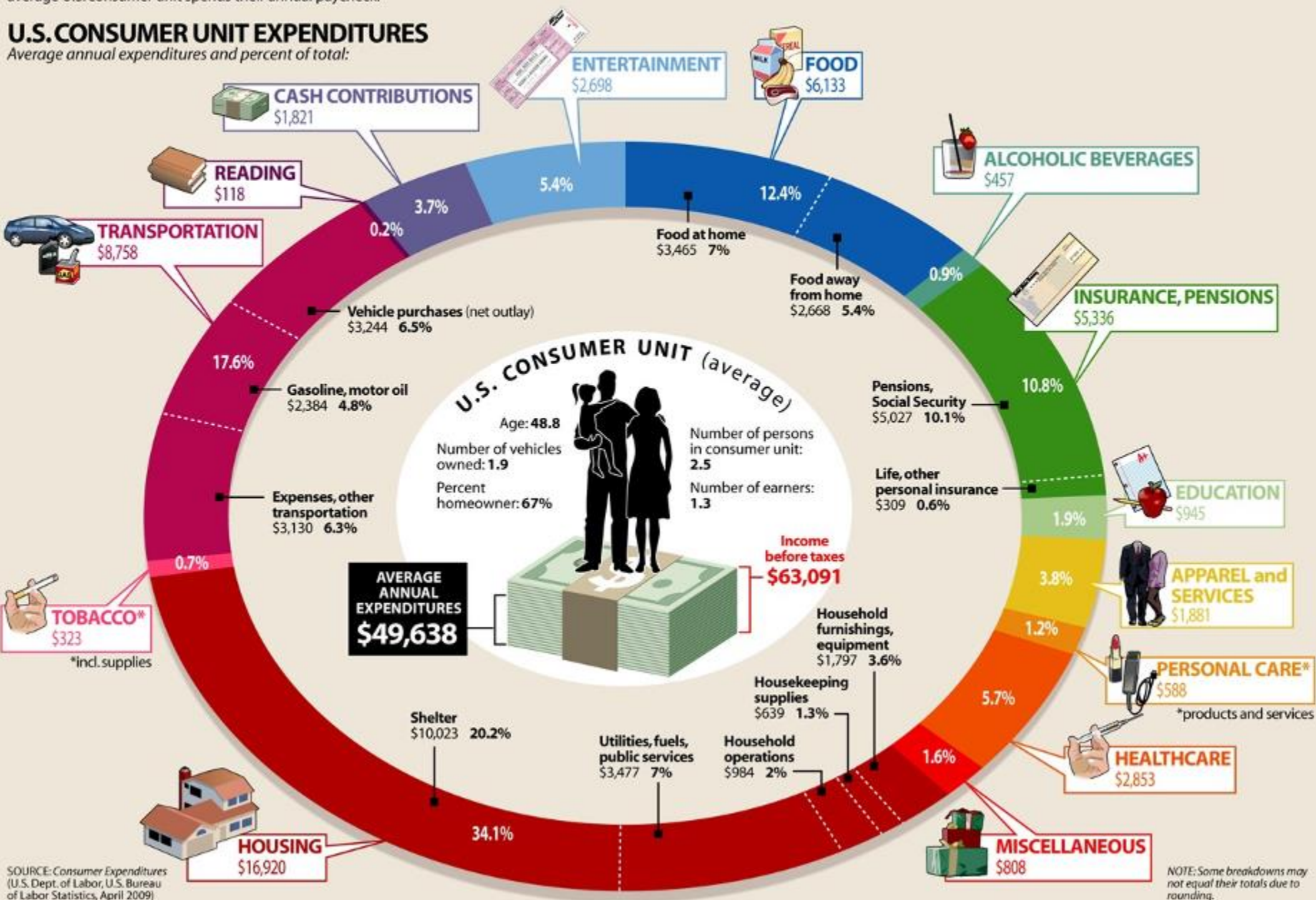
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Where Does the Money Go?

The Department of Labor's latest survey provides a detailed look into how the average U.S. consumer unit spends their annual paycheck.

U.S. CONSUMER UNIT EXPENDITURES

Average annual expenditures and percent of total:



SOURCE: Consumer Expenditures (U.S. Dept. of Labor, U.S. Bureau of Labor Statistics, April 2009)

Parts of GDP

- All **investment** within a country in a certain year, month or quarter
- In other words: business spending money on capital goods



Parts of GDP

- All **government spending** in a country in a certain year, month or quarter
- Examples: education, military, roads, healthcare, etc



Where Did Your Tax Dollar Go?

In 2012, Washington collected \$2.4 trillion in taxes, more than \$20,000 for every American household. Yet Washington actually spent \$3.5 trillion, or nearly \$30,000 per household, adding \$1.1 trillion to the debt.



* Includes federal employee retirement and disability, unemployment compensation, food and housing assistance, and other federal income security programs.

Notes: Figures have been rounded. Defense spending includes overseas contingency operations.

Source: White House Office of Management and Budget.

Parts of GDP

- All **net exports** from a country in a certain year, month or quarter
- **Exports** = goods shipped to other countries
- **Imports** = goods brought into a country from another country
- USA? Mexico?



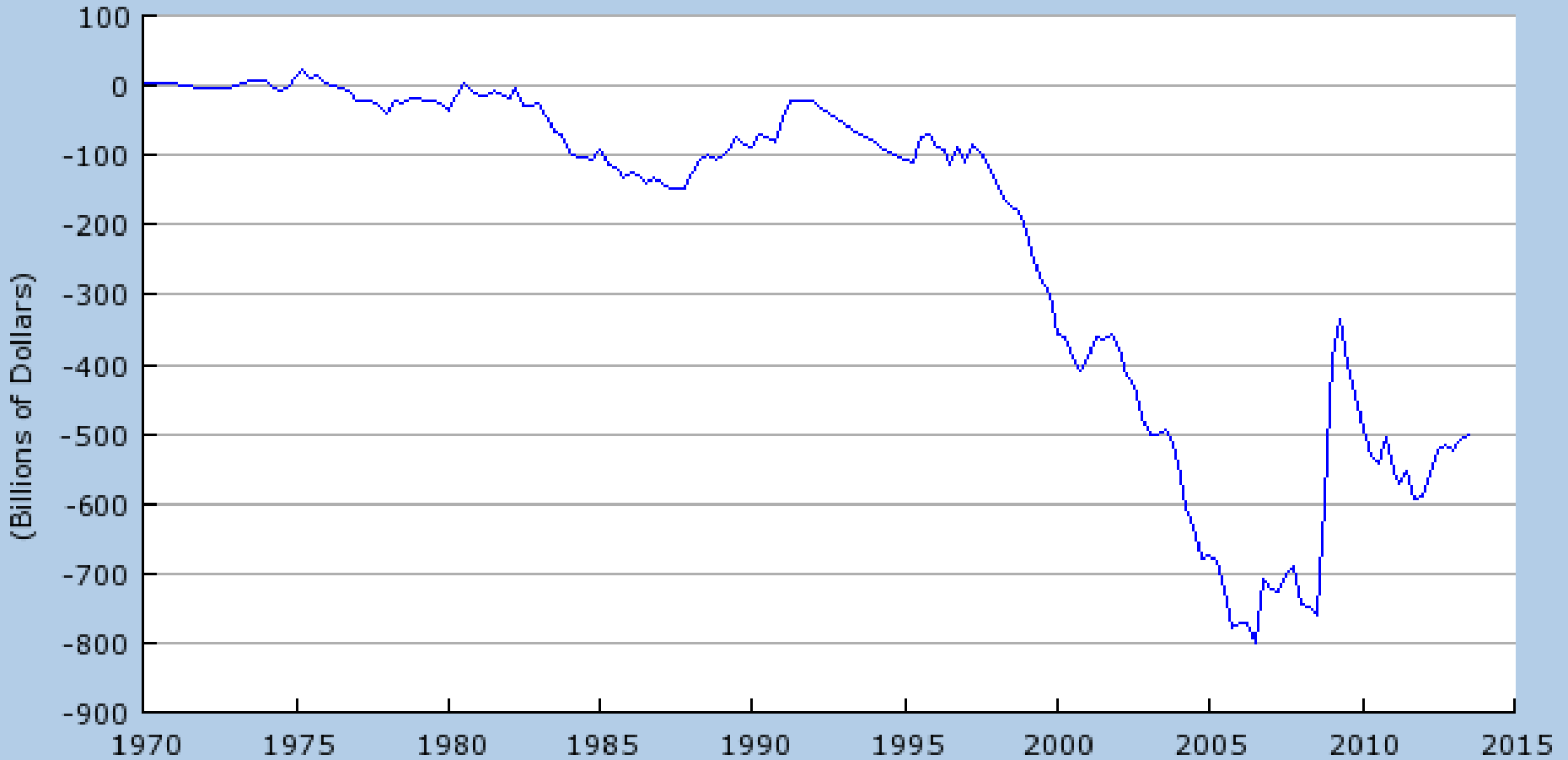
Agree: Stand up

USA imports more
than it exports

Disagree: Stay seated

Net Exports of Goods & Services (NETEXP)

Source: U.S. Department of Commerce: Bureau of Economic Analysis



Net Exporters

- A
e
ir



- A

f
ne.

porter.

Net Importers



GDP Calculation

$$Y = C + I + G + X_n$$

where

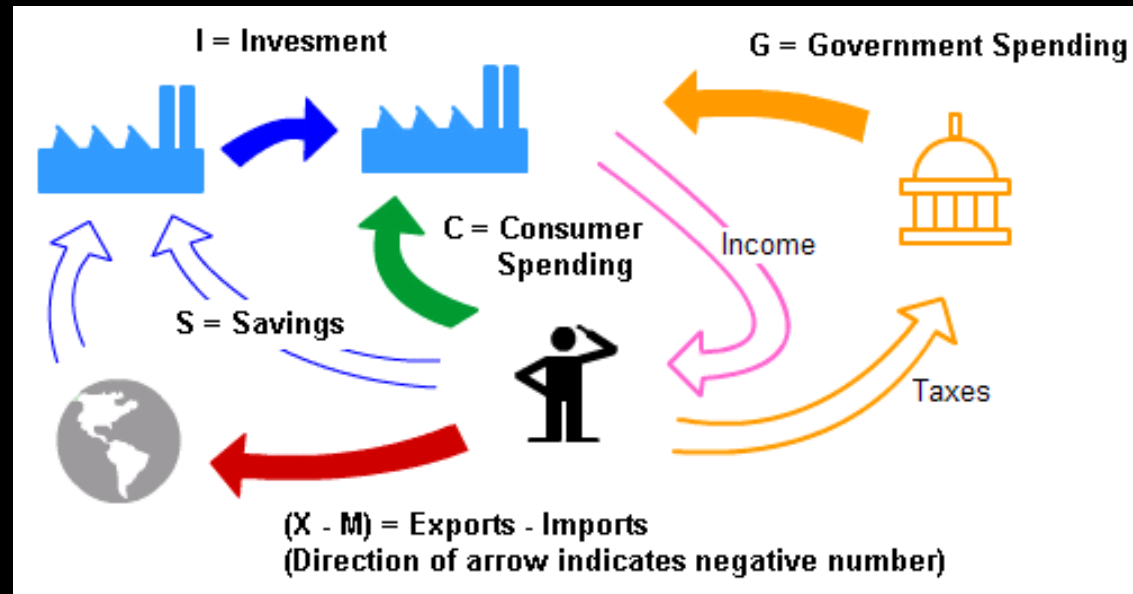
$$Y = \text{GDP}$$

C = Consumer Spending

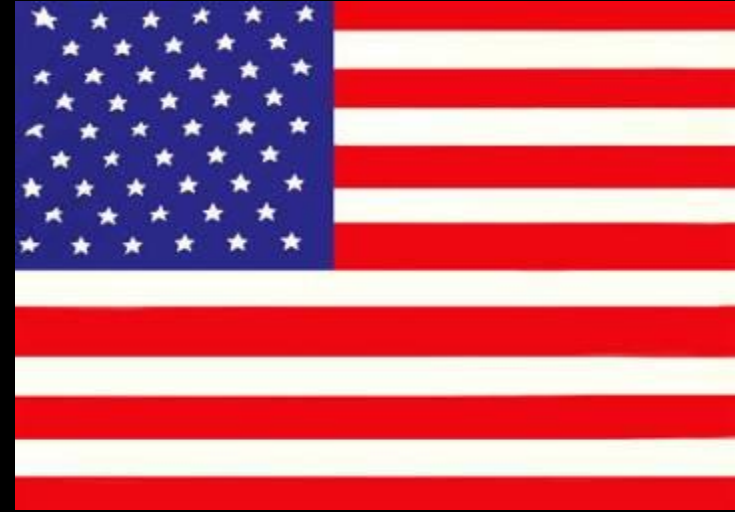
I = Investment

G = Government Spending

X_n = Exports - Imports



United States GDP 2003



$$Y = C + I + G + X_n$$

\$\$ in Billions

Consumer Spending = \$7605

Investment = \$1606

Government Spending = \$2017

Exports = \$1021

Imports = \$1508

$$\$7605 + 1606 + 2017 + (1021 - 1508) = \$10,741 \text{ (2003)}$$

GDP

- What economic activity did I leave out?
- Ways GDP might be misleading?

What GDP does not count

- Nonmarket activities (home childcare or performing one's own home repairs)
- Underground economy (market activities that go unreported because they are illegal or because those involved want to avoid taxation)
- Quality of life (what are we spending our money on?)

$$\text{GDP} = C + I + G + (X - M)$$

Assuming everything else stays equal, what happens if...

US consumers spend 5% more in 2013, than 2012 for the Winter Holidays.

look at the size of that

TOY SALE

up to

50% OFF

CLICK FOR DETAILS

ONLY \$7.99

ONLY \$7.99

ONLY \$8.99

$$\text{GDP} = C + I + G + (X - M)$$

Assuming everything else stays equal, what happens if...

US government passes \$800 billion
healthcare reform bill



$$\text{GDP} = C + I + G + (X - M)$$

Assuming everything else stays equal, what happens if...

US Students learn about the benefits of saving money



$$\text{GDP} = C + I + G + (X - M)$$

Assuming everything else stays equal, what happens if...

Bank business lending increases
by 7% in 2013

CHASE 

**WELLS
FARGO**

Bank of America.



$$\text{GDP} = C + I + G + (X - M)$$

Assuming everything else stays equal, what happens if...

Mexican citizens demand 15 % fewer
US-made cars



$$\text{GDP} = C + I + G + (X - M)$$

Assuming everything else stays equal, what happens if...

The internet is created



$$\text{GDP} = C + I + G + (X - M)$$

Assuming everything else stays equal, what happens if...

Americans demand 50% more
Mexican baked goods



$$\text{GDP} = C + I + G + (X - M)$$

Assuming everything else stays equal, what happens if...

NBA plays a in China, and afterwards
Chinese demand US-made basketballs



$$\text{GDP} = C + I + G + (X - M)$$

Assuming everything else stays equal, what happens if...

US government cuts
income tax rates by 2 %

$$\text{GDP} = C + I + G + (X - M)$$

Assuming everything else stays equal, what happens if...

World demand for American timber increases



$$\text{GDP} = C + I + G + (X - M)$$

Assuming everything else stays equal, what happens if...

US military invades Iran

