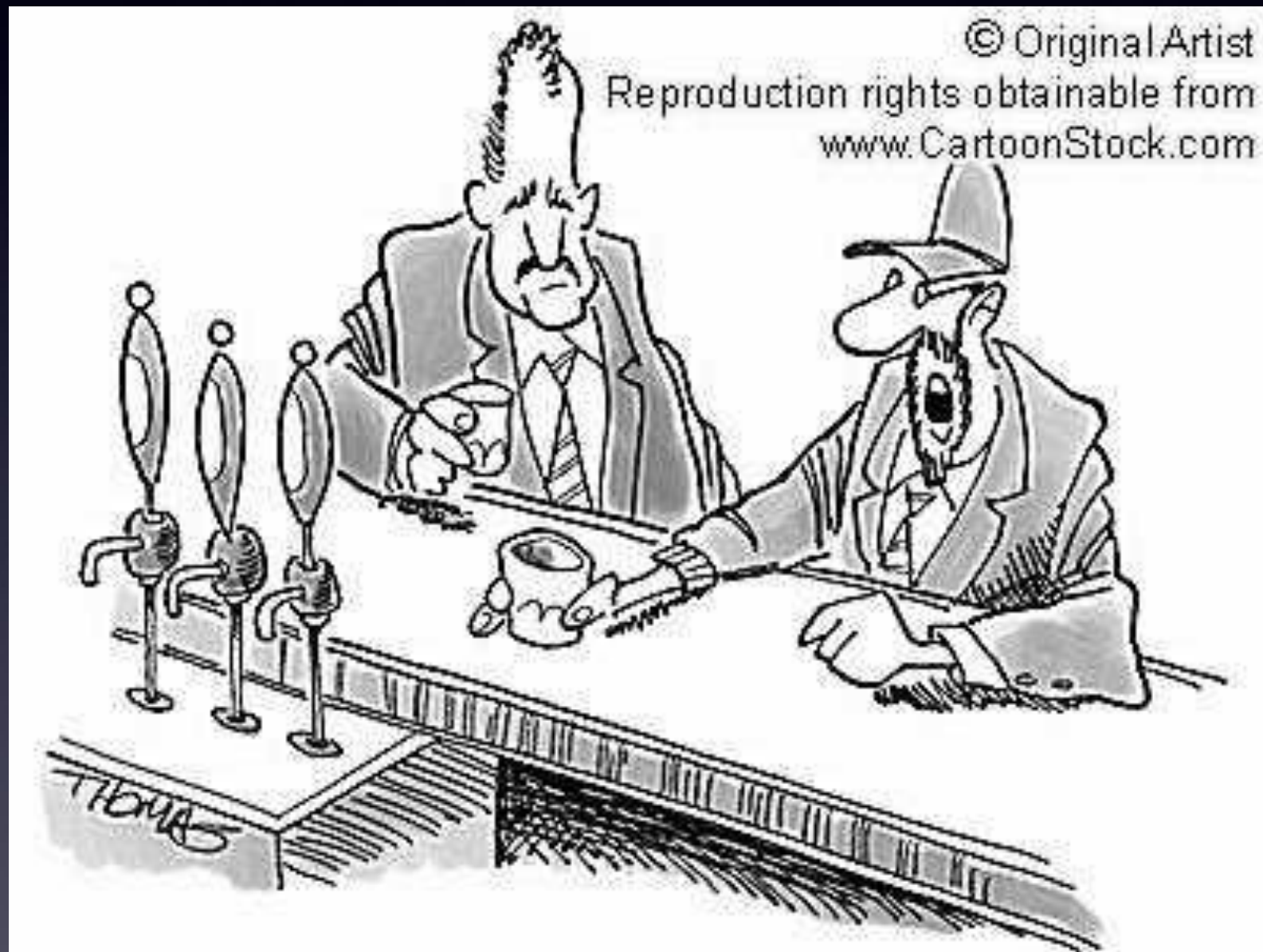


Macroeconomics

The study of the aggregate economy

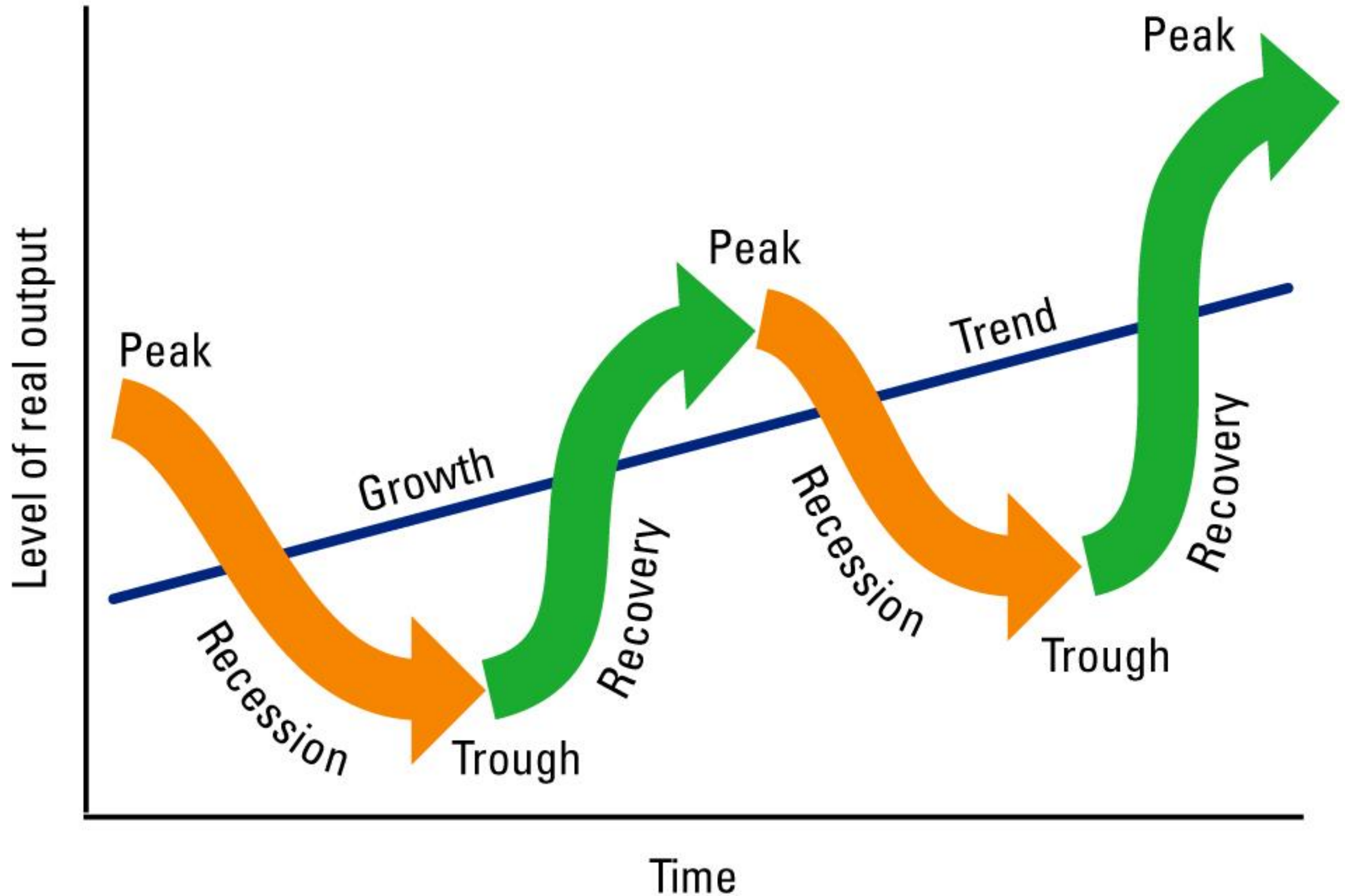


"The difference between Micro and Macro economics is this:
Macro is what you owe, and Micro is what you're paid."

Today's goals

1. Discuss factors that affect GDP components.
2. Go into more depth on circular flow.
3. Tie together GDP and circular flow.

The Economic Cycle



Measuring aggregate demand



Keep in mind:

Aggregate means
whole or total

Therefore aggregate demand =
**total demand for all goods and services
from all sectors of the economy.**

Or put another way:

$$AD = C + I + G + (X - M)$$

C = Consumption

- Affected by such things as:

★ Income and wealth

★ Interest rates

★ Expectations of the future



I = Investment

- includes purchases of machines, new buildings, additions to inventories

- Affected by such things as:

- ★ Interest rates

- ★ Technology, depreciation levels

- ★ Government policies

- ★ Expectations of the future



G = Government spending

- Affected by such things as:



★ Debt servicing costs

★ Social service needs and transfer payment requirements

★ Requirements for new spending on capital works (i.e. infrastructure)

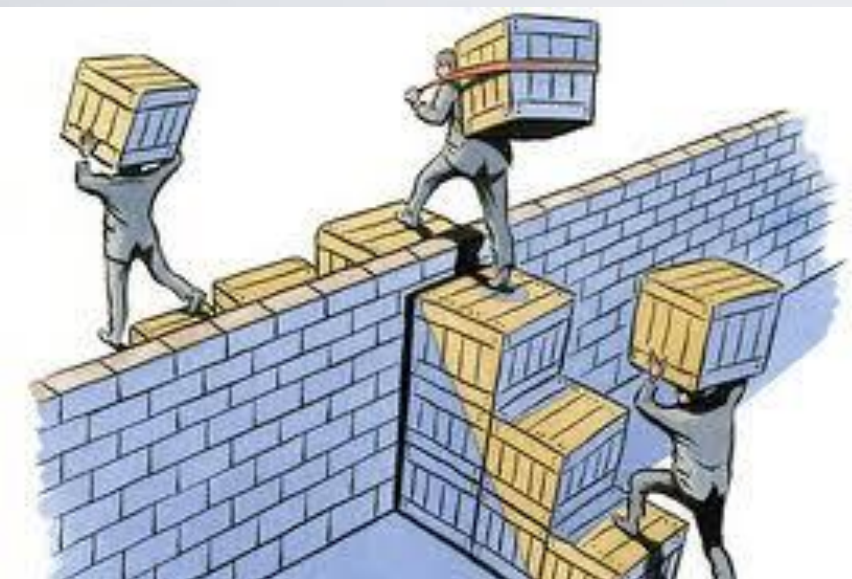


$X - M =$ The trade balance

Affected by such things as:

★ Currency rates

CANADA	CAD	0.9512	0.8883
CHINA	CNY	7.3169	6.0970
EURO	EUR	0.5544	0.6100
JAPAN	JPY	10900	10200
SINGAPORE	SGD	1.3712	1.2630
HONG KONG	HKD	7.0043	6.4072
NEW ZEALAND	NZD	1.1646	1.0675
MALAYSIA	MYR	3.2536	2.7818

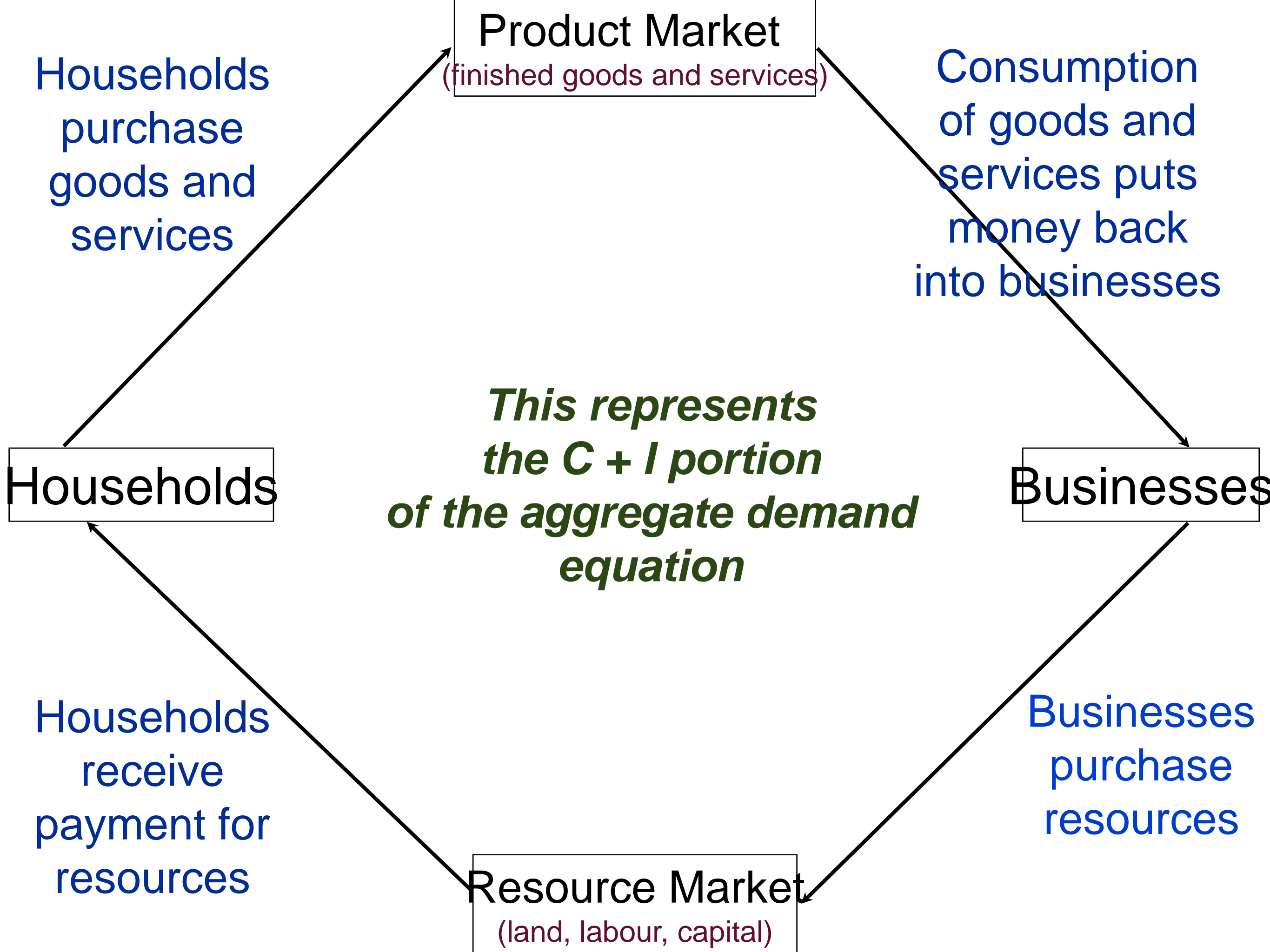


★ Barriers to trade

★ Trade blocs and agreements



Circular Flow Model of the Economy



Households purchase goods and services

Product Market
(finished goods and services)

Consumption of goods and services puts money back into businesses

Households

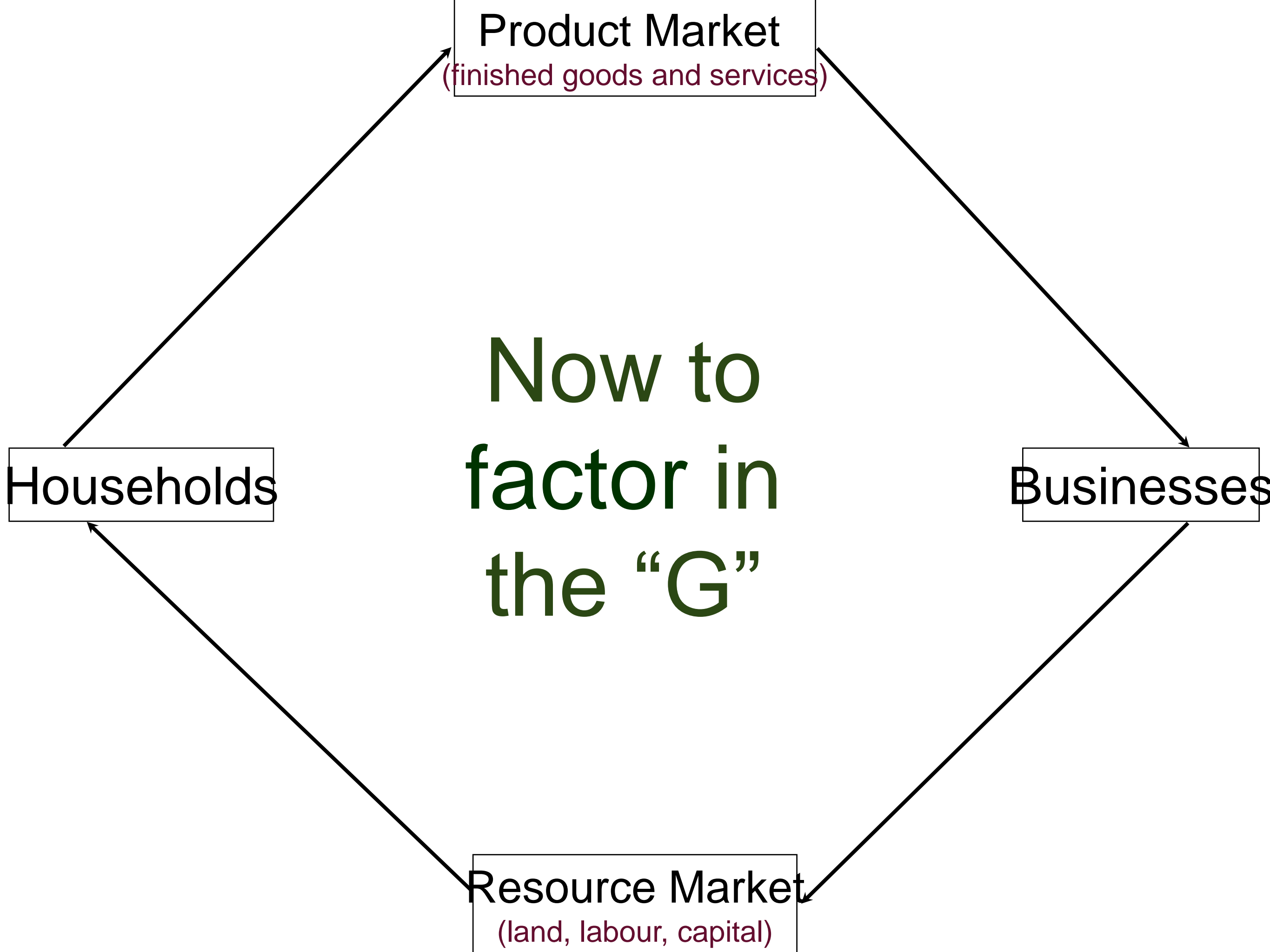
This represents the C + I portion of the aggregate demand equation

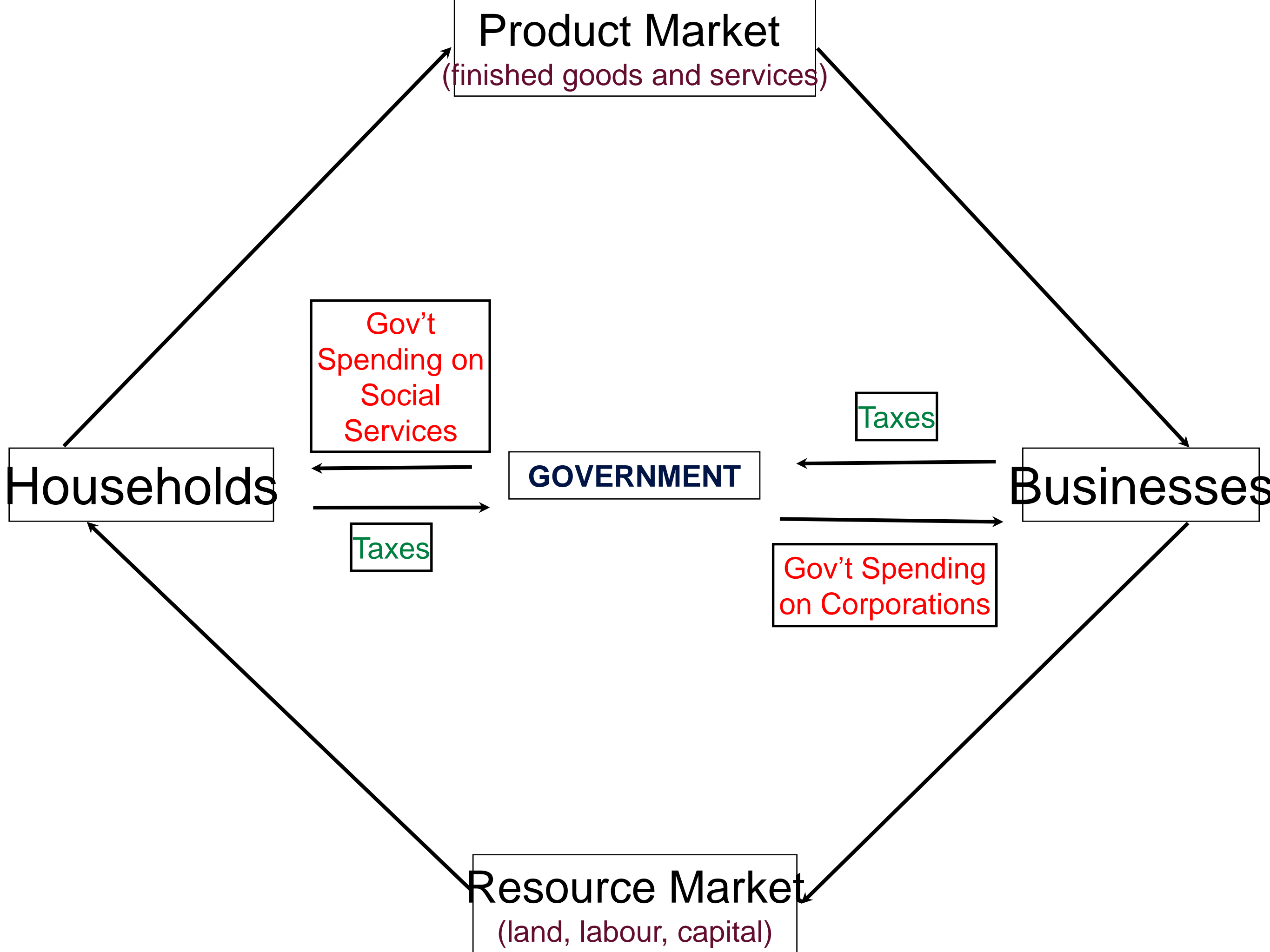
Businesses

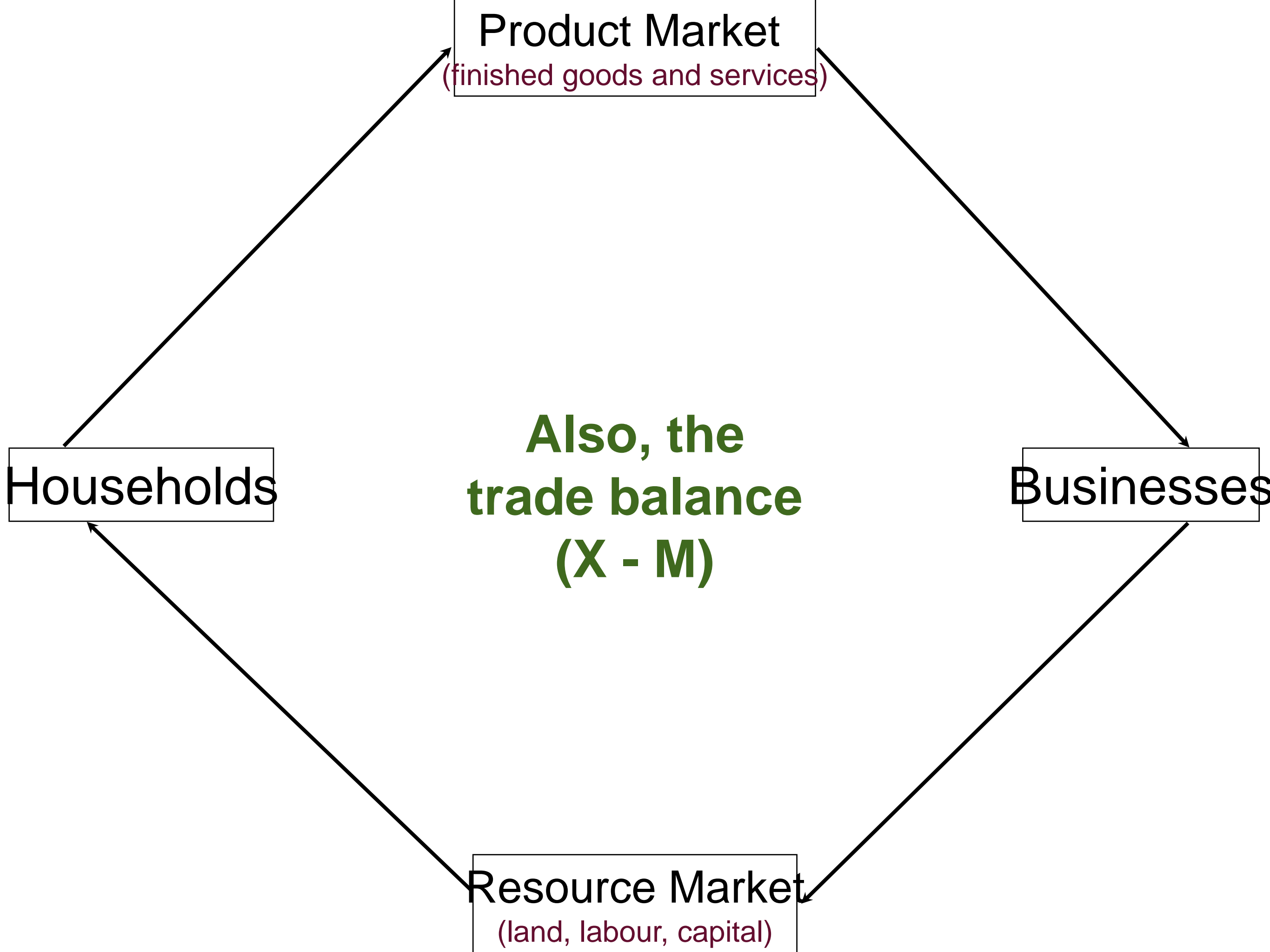
Households receive payment for resources

Resource Market
(land, labour, capital)

Businesses purchase resources







Product Market

(finished goods and services)

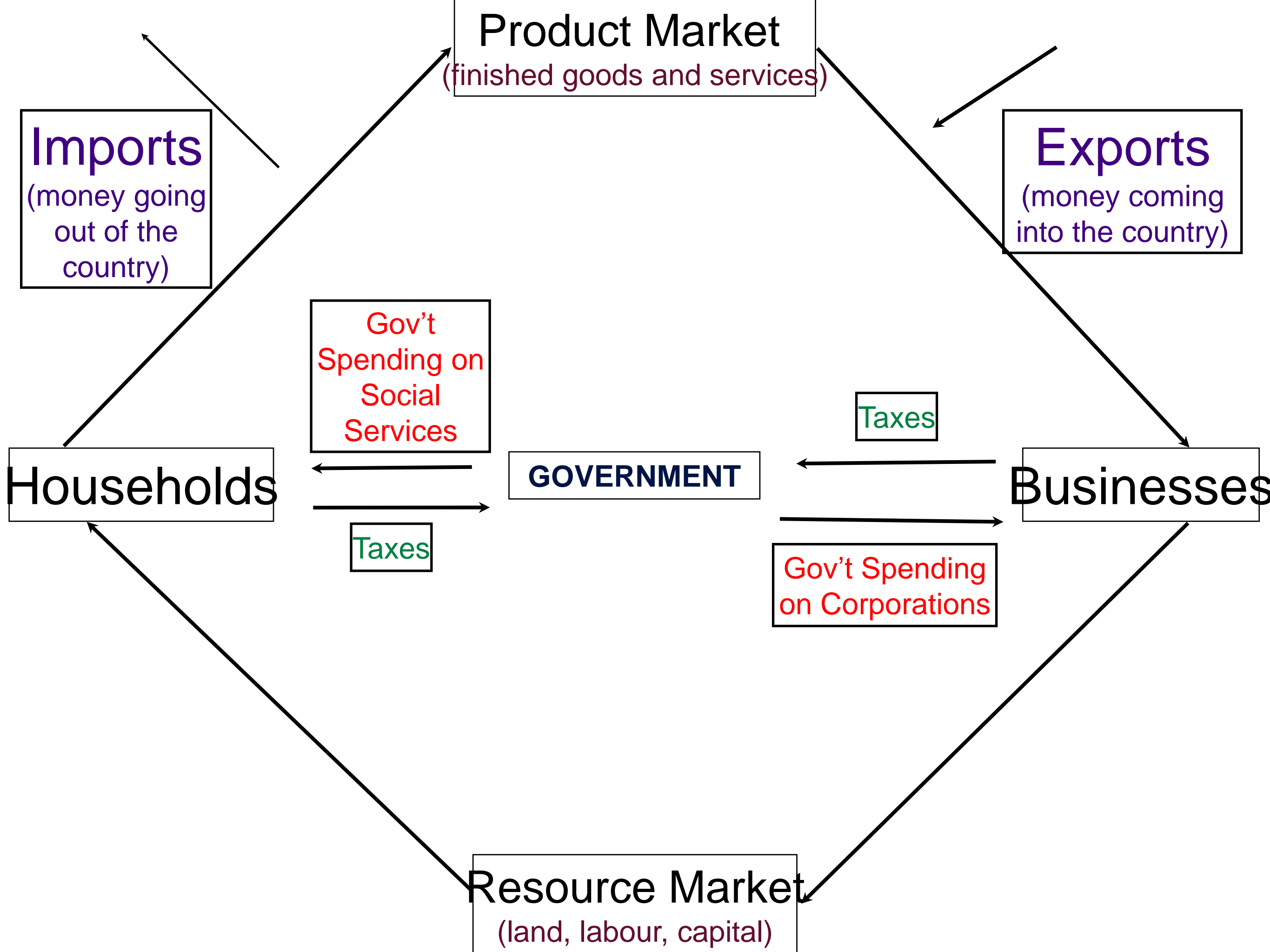
Households

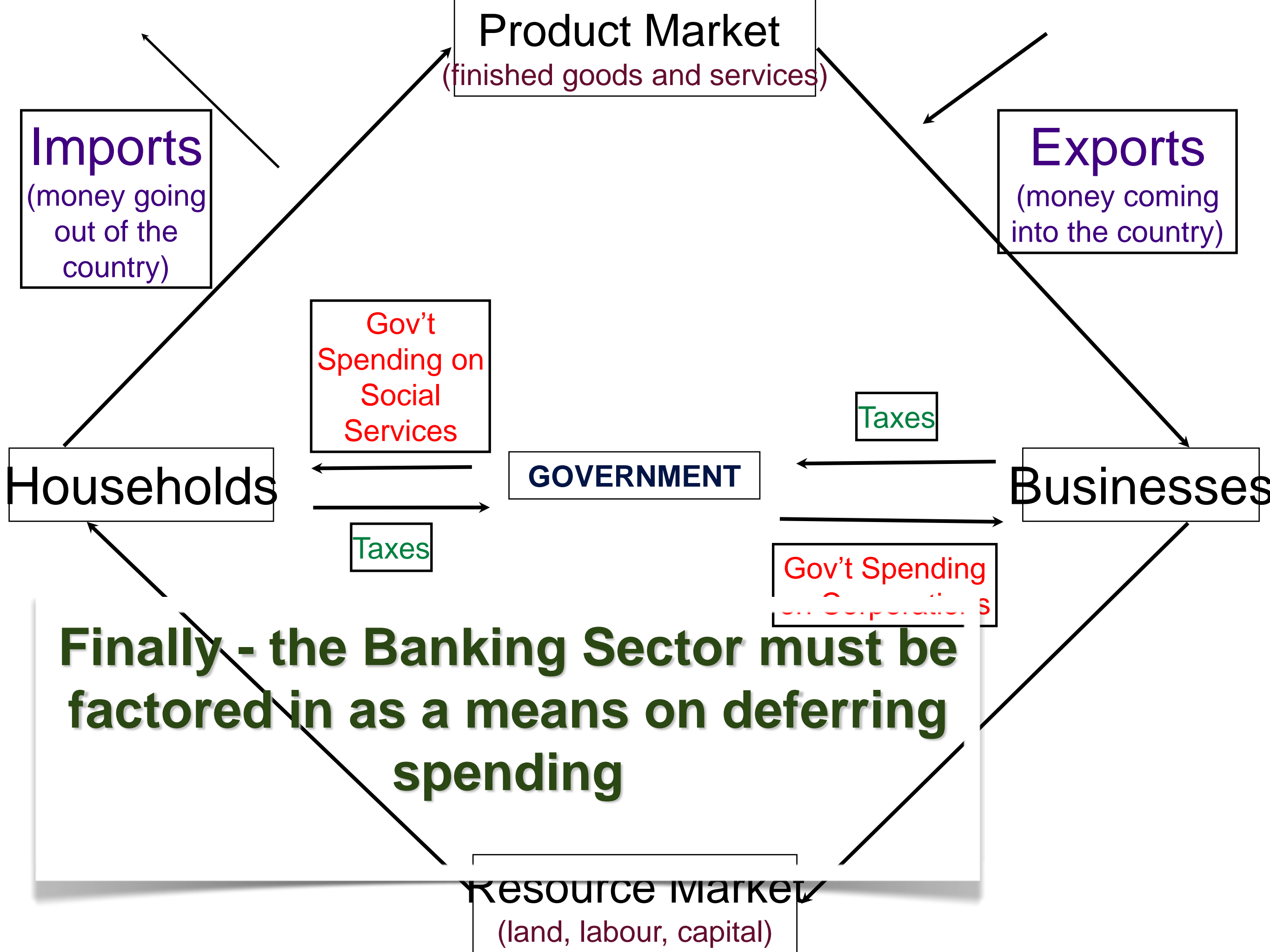
**Also, the
trade balance
(X - M)**

Businesses

Resource Market

(land, labour, capital)





Imports
(money going out of the country)

Exports
(money coming into the country)

Product Market
(finished goods and services)

Gov't Spending on Social Services

Taxes

Households

GOVERNMENT

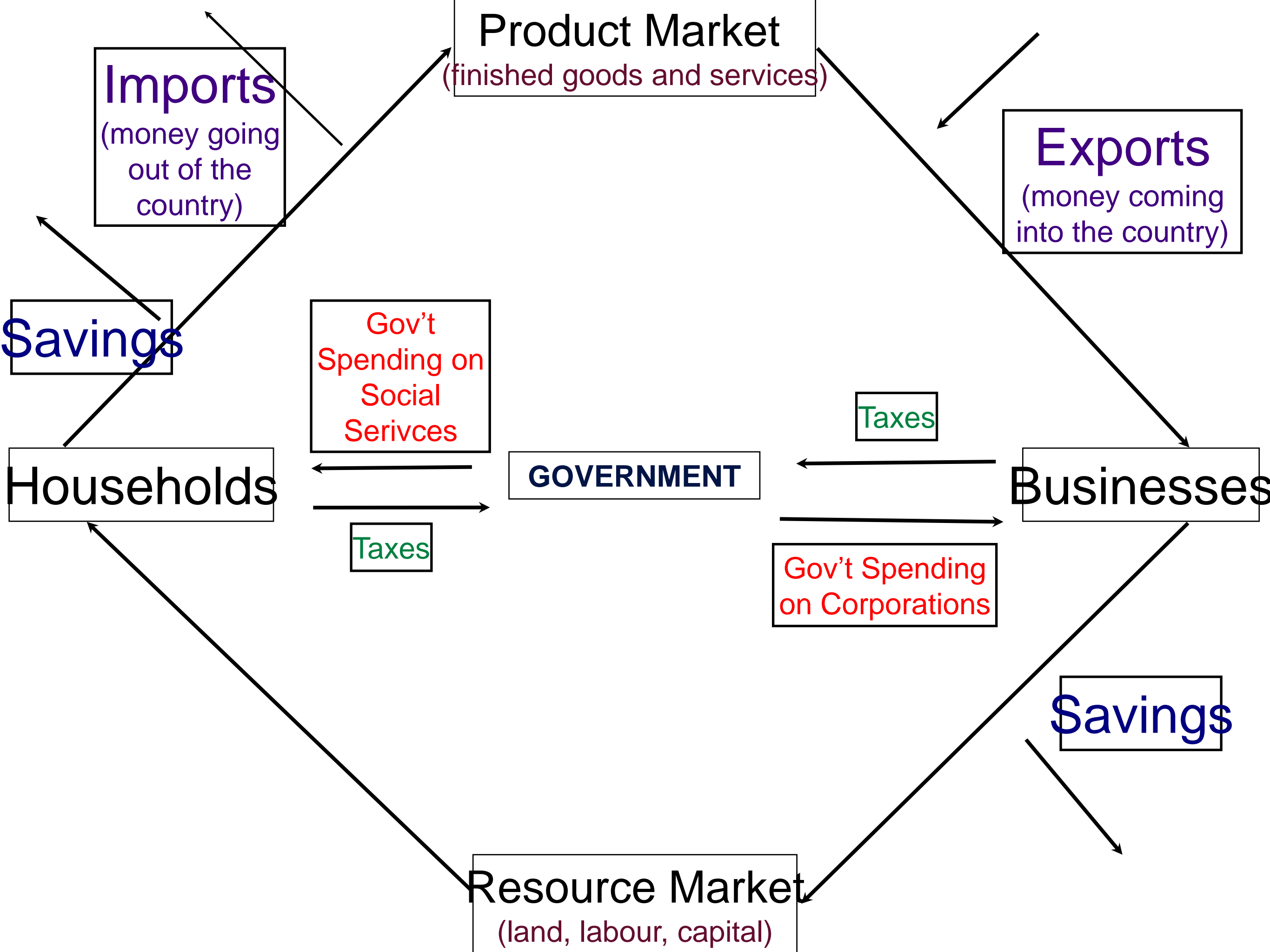
Businesses

Taxes

Gov't Spending on Corporations

Finally - the Banking Sector must be factored in as a means on deferring spending

Resource Market
(land, labour, capital)



As you can see - some factors contribute to the economy and some take from it.

This is referred to as ***leakages*** and ***injections***

<i>Leakages</i>	<i>Injections</i>
<ul style="list-style-type: none">• Savings	<ul style="list-style-type: none">• Spending
<ul style="list-style-type: none">• Taxes	<ul style="list-style-type: none">• Gov't. Spending
<ul style="list-style-type: none">• Imports	<ul style="list-style-type: none">• Exports

• Stable economy  Leakages = Injections

• Rising Economy  Leakages < Injections

• Falling Economy  Leakages > Injections

and thus ...
measurement and
evaluation of
economic activity.

Production

- Most commonly measured as
Gross Domestic Product (GDP)

The value at market prices of all final goods, services produced in U.S. by both U.S.- and foreign-owned businesses.