MIAMI HERBERT BUSINESS SCHOOL

ECO212 Principles of Macroeconomics

Chapter 5

Ivy Yang

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Overview

1. Macroeconomic questions

2. National income accounts

Aggregated economy

History of macroeconomics:

- Before World War I: No country had a system of measuring aggregate economic activity.
  Economists had to analogy the whole with an observation of a small piece.
- Today: We have a sophisticated system that measures aggregate activity level.

Macroeconomic questions

Macroeconomics questions

What macroeconomics analysis?

Macroeconomic analysis explains past patterns in aggregate economic activity and tries to predict future changes.

Macroeconomists are interested in the enormous differences in income across countries and the creation of policies that would enable the countries with lower income to catch up.

Macroeconomics questions

Income per capita - income per person

A global view of GDP per capita change.

Examples of per capita mindset:

- China has been catching up to the United States very quickly. China's economy has been growing 4 times as fast as the U.S. economy for over 30 years
  1. Will China eventually match the level of U.S. income per capita?
  2. Will China surpass the U.S.?
- Japan experienced a long-run slowdown in economic growth starting around 1990 when its income per capita was about to overtake that of the U.S.
  Growth rate slow down as income per capita rises.

Macroeconomics questions

Income per capita - income per person

$$\text{Income per capita} = \textbf{GDP} \text{ per capita} = \frac{\textbf{GDP}}{\text{Total population}}$$

Measuring differences in income per capita

Example 1: the United States in 2019

$$\text{GDP} = \$21,428\text{billion}$$

$$\text{Population} = 327\text{million}$$

$$\text{GDP per capita} = \$65,529 \text{ per person}$$

Macroeconomics questions

Measuring differences in income per capita

Example 2: China in 2019

$$\text{GDP} = 127,116 \text{ RMB billion}$$

$$\text{Population} = 1.41 \text{billion}$$

$$\text{GDP per capita} = 90,153 \text{ RMB per person} = \$12,445.54 \text{ per person}$$

Example 2: Saudi Arabia in 2019

$$\text{GDP} = 4,928 \text{ riyal billion}$$

$$\text{Population} = 32.9 \text{ million}$$

$$\text{GDP per capita} = 149,787 \text{ riyal per person} = \$39,844.33 \text{ per person}$$

Macroeconomics questions - economy development

Economy development:

- **Japan experienced a long-run slowdown in economic growth starting around 1990**
- **Middle income trap:**
  a country that attains a certain income (with gross national product per capita that has remained between $1,000 to $12,000 at constant (2011) prices)(due to given advantages) gets stuck at that level.

Macroeconomics questions - economy development

long-run and short-run in macroeconomics:

- “short-run": the year-to-year study of the economy.
- “long-run": the ultimate equilibrium after any shocks.

Saltwater vs Freshwater economics.

Important topics in macroeconomics:

- How to make low-income countries grow faster?
- achieve long-run economic prosperity.

Macroeconomics questions - employment

Macroeconomics questions - employment

Definition for labor:

- **Employed:** Persons who hold a paid full-time or part-time job.
- **Unemployed:** A worker is officially unemployed if he or she does not have a job, has actively looked for work in the prior four weeks, and is currently available for work.
- **Not in labor force:** persons who are without a paid job and not actively searching for one.

$$\text{Labor force} = \text{Employed} + \text{Unemployed}$$

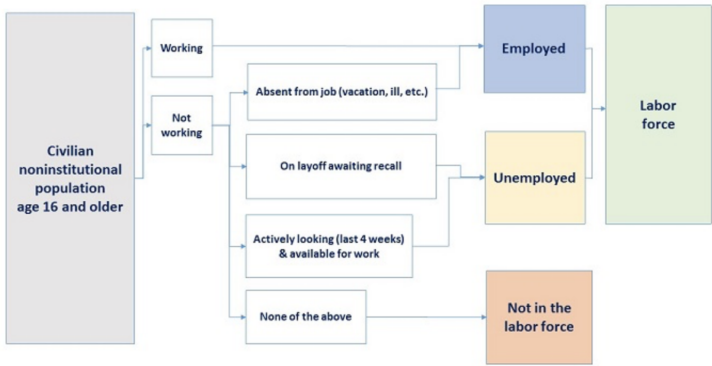
$$\text{Unemployment rate} = 100\% + \frac{\text{Unemployed}}{\text{Labor force}}$$

$$\text{Labor force participation rate} = 100\% + \frac{\text{Labor force}}{\text{Potential workers}}$$

Macroeconomics questions - employment

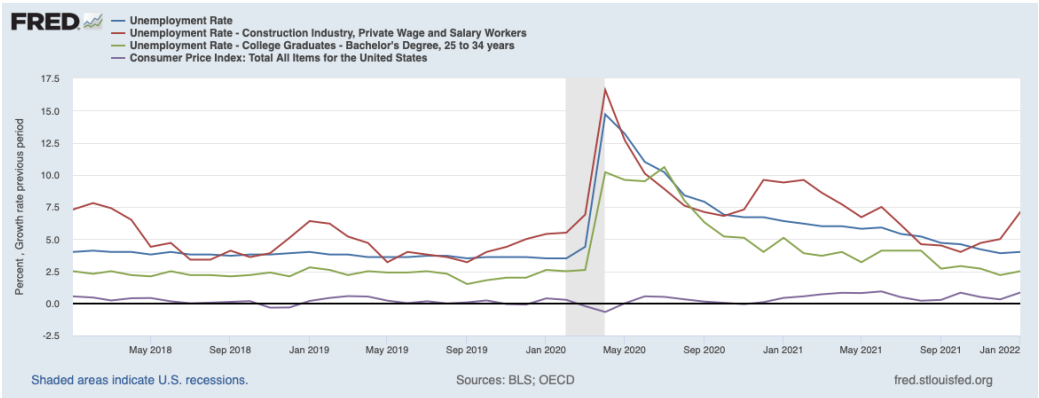
Unemployed rate:

Unemployment rate is the fraction of the labor force that is unemployed.



Macroeconomics questions

Discuss the unemployment rate:



Macroeconomics questions- employment

Unemployment rate vs. inflation

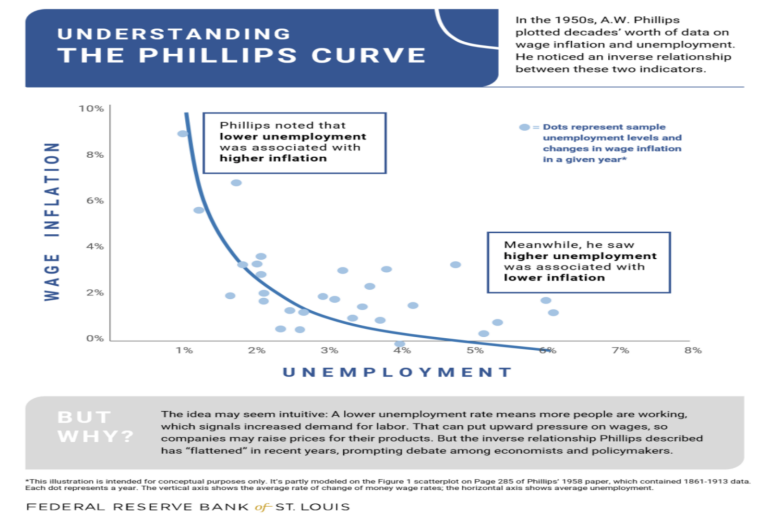
Think of the current situation - tolerant of a high inflation rate for what?

Philips curve

The Federal Reserve has a dual mandate

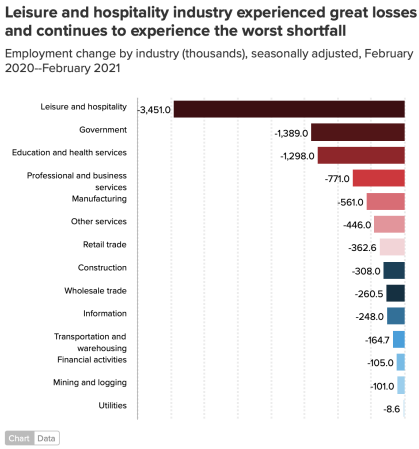
- promote maximum sustainable employment
- price stability

Macroeconomics questions- employment



Macroeconomics questions- employment

Discuss why we have low unemployment rate in some sectors



National income accounts

National income account

National income accounts: measure the level of aggregate economic activity in country.

The National Income and Product Accounts (NIPA): is the system of national income accounts that is used by the U.S. government.