Introduction to Economics

Unit 7

Macroeconomic variables and concepts.

The National Product

Universidad Politécnica de Cartagena

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Bibliografía: Mochón, F. (2009): Economía y turismo. Editorial: McGraw Hill, Madrid.

1. Macroeconomics: Objectives and Instruments

- Macroeconomics: study of the economy as a whole
- Macroeconomic policy: set of government measures aimed at influencing the performance of the economy as a whole
- Goals: GDP growth, employment and price stability
- Macroeconomic policy instruments: monetary policy and fiscal policy
- Monetary policy: central bank measures aimed at management the quantity of money and credit conditions
- Fiscal policy: government decisions on the level of public spending and taxes

2. Gross Domestic Product (GDP)

- National accounting measures the activity of an economy over a period, recording the transactions carried out between the different agents that comprise it.
- GDP: monetary value of the final goods and services produced in the economy during a given period, within the borders of a country
- Monetary value: value in euros
- Final goods: those that have already undergone the necessary transformations for their use as consumption goods or capital goods
- Intermediate goods: goods used in the production of another goods
- Value Added: difference between the value of the goods produced and the cost of raw materials and other intermediate goods used to produce them
- Potential GDP: maximum level of production that the economy can achieve while keeping prices stable and with the lowest sustainable rate of unemployment
- Natural unemployment: long-term unemployment

3. Gross Domestic Products (GDP) by the demand side

- GDP by the production method: monetary value of the flow of final products and services produced by a given country

Composition of the GDP by the demand side

- GDP by the demand side:consumption + private investment + public expenditure + net exports
- Consumption (C): expenditure on goods and services made by families. It is the part of GDP acquired by families as end consumers
- Investment (I): nonresidential investment (plant and equipment purchased by companies) + residential investment (construction of new homes for residential use) + variation in stocks or inventories
- Inventories or stocks: are the goods that have been produced, but have not yet been sold
- Net investment: gross investment – depreciation
- Government Spending (G): is that made by the public sector on goods and services
- Net exports (XN): exports - imports

GDP = C + I + G + XN

4. Gross Domestic Product (GDP) by the costs side

Calculation of GDP by the cost method

- GDP by the factor cost method is calculated by adding the factors cost of all companies
- GDP = Wages and Salaries + Interest and property income + Profits + Indirect taxes
- Equivalence of the two approaches. Total production value = Total income
- GDP at market prices equal to GDP at factor cost plus indirect taxes (Ti) minus operating subsidies (Sb).
- GDP mp = GDP fc + Ti - Sb

5. Real and nominal GDP: price indices and inflation

- Nominal GDP or at current prices
- Real GDP or at constant prices
- Price index: weighted average of the prices of each period, each good or service is valued according to its weight in the total product
- Consumer Price Index (CPI): represents the cost of a basket of goods and services consumed by a representative domestic economy
- Inflation rate: variation of the price level
- GDP deflator: it is a price index that calculates the change in prices of an economy in a given period using the gross domestic product. It is obtained by dividing nominal GDP by real GDP for each year

Calculation of the CPI

CPI: price index that measures the cost of a fixed basket of consumer goods in which the weight assigned to each merchandise is the proportion of expenses incurred by consumers in the period considered

The GDP deflator is established by dividing the nominal GDP of that year by the real GDP or at constant prices, which is calculated taking the prices of the year considered as the year base.

6. Measurement of economic activity

- Quotients or ratios between two variables are used to compare them, to study the evolution over time, how much changed, etc. (For example 2018 GDP compared to 2000 one).

- Percentage of participation. For example, the unemployment rate is calculated as the quotient between the number of unemployed and the active population, which in turn is the sum of the unemployed and the employed.

- Percentage changes do not use units, therefore they are useful for making comparisons. For example, the percentage change in spending on education and the percentage change in population growth.

- Growth rates. They are necessary to measure the evolution of a variable over time. For example the GDP growth rate. Another example of a growth rate is the inflation rate that measures the growth of consumer prices.

7. Tourism and GDP

The Tourism Satellite Accounts are a chapter of accounts that, based on the National Accounts and published by the National Institute of Statistics, provide information on tourism activity. This comprise a wide set of accounts and tables that offer information on various economic variables of the Spanish tourism sector