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Economics 100B
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THINGS YOU SHOULD KNOW FROM ECONOMICS 1

1. GDP is simultaneously a measure of aggregate output and aggregate income.

2. The unemployment rate is not a perfect indicator of the "unemployment problem."

3. In the Keynesian model, Planned Expenditures (or, Aggregate Demand) is equal to

   Aggregate Demand = C + I + G + EX- IM = C + I + G + NX

4. Macroeconomic equilibrium in the Keynesian model is characterized by the existence of a level of aggregate output (which equals aggregate income) such that aggregate output = aggregate expenditures. Using the notation,

   macroeconomic equilibrium is the level of Y such that Y = C + I + G + NX.

5. The process of adjustment to macroeconomic equilibrium is an *output* (not price) adjustment process.

6. Consumption (C) increases with disposable income (Y^D), though the change in consumption is generally less than the corresponding change in disposable income. That is,

   $C = C_o + C_y \cdot Y^D$, where C_y is the mpc and $0 < C_y < 1$

7. Disposable income (Y^D) equals Income (Y) - Net Taxes (T). Net Taxes equal Tax Payments (TA) - Transfer Payments (TR). So $Y^D = Y - T = Y + TR - TA$.

8. Investment and interest rates tend to be inversely related. Interest rates are not the *only* determinant of investment, however.

9. The G of C + I + G does not include *all* government outlays. Only government purchases of goods and services are included in G. Other government outlays (transfer payments) are part of Y^D.

10. The government's budget deficit is the difference between government outlays (G+TR) and government receipts (TA) for a specific year. The government's debt is the sum of all the budget deficits less the sum of all the budget surpluses over time.

11. Adjusting G, TR (Transfer payments), or TA (Tax payments) to achieve macroeconomic goals is *fiscal* policy.

12. Adjusting M (amount of money) or i (interest rates) to achieve macroeconomic goals is *monetary* policy.

13. Capital (K) includes structures (buildings), equipment (machines), and items in inventory. Money, stocks, bonds, or other financial assets are *not* included in capital.

14. Long-run economic growth in an economy's production possibilities are the result of increases in the quantity of resources (Land, Labor, Capital) or increases in productivity.

15. Perfectly competitive markets are characterized by lots of indistinguishable firms producing a homogeneous product. Very few markets in the U.S. are perfectly competitive.

16. Economists assume firms wish to maximize economic profit, and that individuals and households wish to maximize utility.