

Chapter 13/14 Economics Test Review

Mr.Baysdell

EQUATIONS: Be ready for a calculating
GDP/GNP/NNP/NI/PI/DPI question!!!

- GDP= The dollar value of all goods and services produced within U.S. borders in one year
- $GDP = C + I + G + F$
- Gross Domestic Product= Consumer Expenditures + Business Investments + Government Spending + Net Foreign Trade
- GNP= Dollar value of all goods and services produced in one year by labor and property supplied by a nation's residents.
- $GNP = GDP + (\text{Payments to American citizens who employ resources outside the U.S.}) - (\text{Payments to foreign-owned resources employed in the U.S.})$

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GDP and GNP are usually close, but not the same. Take GDP, then add in the amount of money paid to companies like GM or Microsoft who sell "Stuff" they manufacture overseas, but then subtract the income earned by companies like Toyota operating in the U.S. Piece of cake!

- Net national product (NNP) results when you subtract the cost of depreciation of capital equipment from GNP.
- $NNP = GNP - (\text{Capital depreciation})$
- National Income (NI)= NNP - (indirect business taxes)
- Personal Income (PI)= NNP + transfer payments, Social Security, and interest income, but you must subtract undistributed corporate profits, corporate taxes, and social security contributions
- Disposable Personal Income (DPI) = NI - (personal taxes)

- Be able to give or identify examples of a durable good and a nondurable good.
- A few of the main economic variables affect business cycles are interest rates, external events, and business investment levels.
- Be able to identify the most severe economic downturn in the history of industrial capitalism. HINT: It's not that difficult. The obvious answer IS the right one!
- Know which the U.S. Department maintains the National Income and Product Accounts.
- Be able to identify and give examples of capital deepening.
- A few measures that help to promote technological progress are training programs for workers and issuing a patent to a company that invents a new product.
- Know what the expenditure approach is and be able to compare it with the income approach to calculating GDP.
- Know what a disposable personal income is and be able to give or identify an example of it.
- The employment rate is 4.5 percent when the economy is working properly.
- Know that the "market basket" is made up of typical goods and services for an urban household.
- The distribution of income in the U.S. has become less equal in the passed 20 years.
- Be able to identify workfare.
- Know how the Bureau of Labor Statistics determine how the market basket should change over time. (They conduct a Consumer Expenditure Survey)
- Know that a person that is underemployed has a job but they are overqualified for it.
- Know that according to the demand-pull theory, when the demand for goods and services exceed existing supply, inflation occurs.
- Know the major problem for businesses during a period of chronic inflation.
- Know that according to the cost-pull theory, when producers raise prices to meet increased costs, inflation occurs.

Know and be able to identify these terms:

aggregate supply
aggregate demand
block grant
census
chronic inflation
contraction
creeping inflation
deflation
depreciation
discouraged worker
enterprise zone
fixed income
food stamps
frictional employment
gross domestic product
gross national product
hyperinflation
inflation
leading indicators
market Basket
national income accounting
poverty threshold
price index
purchasing power
quantity theory
recession
stagflation
technological process
trough
unemployment rate
wage-price spiral