AP® Macro Unit 2: Economic Indicators and the Business Cycle

Topic 2.1- The Circular Flow and GDP	Topic 2.2- Limitations of GDP
1. Define gross domestic product (GDP) 2. What is the expenditures approach? 3. GDP = ____+____+____+____ 4. What is the income approach? 5. National Income = ____+____+____+____ 6. What is the value-added approach? 7. The circular flow model shows how households, businesses, and the _____ interact. Businesses sell _____ to households in the _____ market and households sell _____ to businesses in the _____ market. Public goods and services are provided by the _____.	1. Identify the three types of transactions that are not included in GDP? *Identify if each statement is true or false* 2. On the circular flow model, businesses sell the factors of production to households. 3. Intermediate goods are used in the production process to produce final goods. 4. Final goods are included in GDP but services are not counted. 5. Investment spending is spending on financial assets like stocks and bonds. 6. Welfare checks and subsides to businesses are examples of transfer payments. 7. Transfer payments are not counted in the calculation of GDP. 8. The equation for net exports is imports minus exports. 9. New housing construction is considered investment and is counted in GDP. 10. Canada's GDP includes goods produced in other countries by Canadian companies.

Topic 2.3- Unemployment

Use the info in the chart to identify the following

Total Adult Population	1600
Full-time Workers	600
Part-time Workers	120
Unemployed	80
Discouraged Workers	20

1. Number of workers in labor force
2. Labor force participation rate
3. Unemployment rate
4. What is the equation for calculating the unemployment rate?

5. Assume that 50 of the 80 unemployed workers also become discouraged workers. Calculate the new unemployment rate.

6. Does the new unemployment rate after the increase in discouraged workers overstate or understate the actual level of joblessness in the economy? Explain.

7. Why are discouraged workers not included in the unemployment rate?

8. What happens to the unemployment rate when full-time workers involuntarily become part-time workers? Explain.

Topic 2.3- Unemployment (continued)

9. Define and give an example of frictional unemployment

10. Define and give an example of structural unemployment

11. Define and give an example of cyclical unemployment

12. What is the natural rate of unemployment?

13. Fully explain why "full employment" does not mean 0% unemployment

Topic 2.4- Price Indices and Inflation

1. What is the Consumer Price Index (CPI)?

2. Identify the equation for the CPI

3. Assume the value of a market basket for a given year is $550 and the same basket in the base year was $500. Calculate the CPI.

4. If the CPI for a given year is 90 then the change in prices between that year and the base year is _____

5. Fill in the blanks. Start with 2009 as the base year then recalculate with 2010 as the base year.

Year	Market Basket	Base Year 2009	Base Year 2010
2009	$20	100	
2010	$40		100
2011	$50		

6. What is the GDP Deflator?

7. Identify the equation for the GDP deflator

8. The nominal GDP is $100 billion and the real GDP is $80 billion. Calculate the GDP deflator.

9. The Real GDP is $100 billion and the GDP deflator is 200. Calculate the nominal GDP.

10. The real GDP is $200 billion and the GDP deflator is 120. Calculate the nominal GDP.

11. The nominal GDP is $300 billion and the GDP deflator is 150. Calculate the real GDP.

12. The nominal GDP is $100 billion and the GDP deflator is 125. Calculate the real GDP.

Topic 2.5- Costs of Inflation

1. Identify who is hurt and helped by unexpected inflation

Topic 2.6- Real v. Nominal GDP

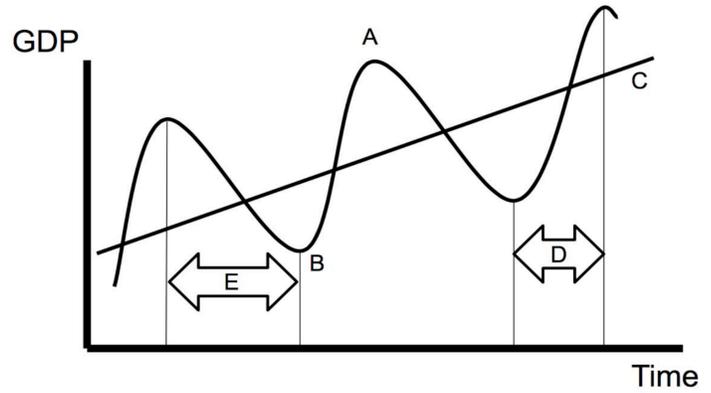1. What is the difference between the nominal GDP and the real GDP

Topic 2.7- Business Cycles

1. Use the graph to identify the following:
   _____ Potential Output
   _____ Peak
   _____ Recession (contraction)
   _____ Trough
   _____ Expansion (recovery)

2. Which type(s) of unemployment exist when the economy is at point B?

3. Label a new point (F) where the economy is at the natural rate of unemployment

Identify each of the following on the circular flow diagram for a closed economy:

Consumer Spending	Investment	Public Borrowing
Government Spending	National Income	Public Savings
Factor Payments	Private Borrowing	Resources (2)
Goods/Services (2)	Private Savings	Revenue
		Taxes (2)