

## 3 Economic Indicators -

**GDP**

**Inflation- CPI**

**Unemployment**

GDP Definition:

Total dollar  
value of  
all goods/services  
produced within  
a nations borders

## 4 Components of GDP

C -consumer spending

I — business investment spending

G — government spending

NX — net exports (exports-imports)

nominal GDP: GDP in  
current year dollars

Real GDP: GDP adjusted  
for inflation

Increases in GDP  
lead to  
economic growth

if GDP  $\uparrow$   
unemployment  $\downarrow$   
inflation  $\uparrow$

---

if GDP  $\downarrow$   
unemp  $\uparrow$   
inflation  $\downarrow$

# Unemployment Rate

% of the labor force that is out of a job

Labor force - everyone  
16-65 who is working  
or actively looking for work

## 3 Types of Unemployment

**1. Frictional unemployment**  
temporary unemployment (ex.  
seasonal, job changers)

## **2. Structural:**

You no longer have  
the necessary job Skills  
ex. workers replaced  
by technology

## **3. Cyclical:**

unemployment due  
to downturns (slowdowns)  
in the economy  
ex. layoffs due to recessions

# Inflation

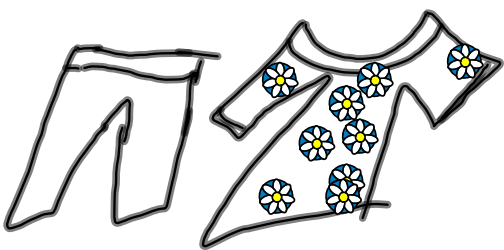
## Rising prices

## measured by CPI

## Consumer Price Index

Index of all prices of all goods produced

Measures a "basket" of 300 or so commonly produced goods and services that are bought year after year. Examples: Oil, food, housing, clothing, automobiles. Prices in the current year are measured against a base year.



Formula:

Current Year Prices

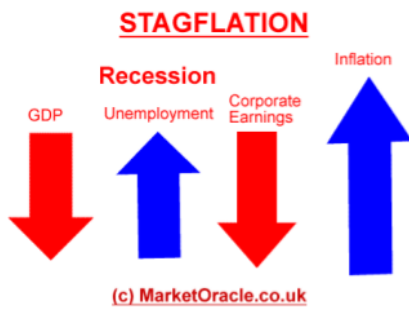
---

Base year prices

× 100

# Deflation - falling prices

## Stagflation - rising prices with falling GDP and rising unemployment



## Hyperinflation - rapid inflation

ex. Germany after WWI



German children playing with worthless bank notes



A woman feeding a stove with bank notes that burn longer than the firewood they could have bought