Objectives of Macroeconomics ECO403

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Actual budget :	The amount spent by the Federal government (to purchase goods and services and for transfer payments) less the amount of tax revenues collected by it in any fiscal year; and which can not reliably used to determine whether it is pursuing an expansionary or concretionary fiscal policy.
Actual deficit :	The size of federal government's budget deficit actually measured or recorded in any given year.
Actual investment :	The amount which business firms do invest: equal to planned investment plus unplanned investment.
Actual reserves :	The funds which a member bank has on deposit at the Federal Reserve Bank of its district.
Adaptive expectation theory :	The idea that people determine their expectations about future events (e.g. inflation) on the basis of past and present events (rates of inflation) and only change their expectations as events unfolds.
Aggregate demand :	A schedule or curve which shows the total quantity of goods and services demanded (purchased) at different price levels.
Aggregate supply :	A schedule or curve showing the total quantity of goods and services supplied (produced) at different price level.
Anticipated inflation :	Inflation at a rate equal to the rate expected in that period of time
Asset demand for money :	The amount of money people want to hold as a store of value (the amount of their financial assets they wish to have in the form of money); and which varies inversely with the rate of interest.
Average propensity to consume :	Fraction of disposable income which households spend for consumer goods and services; consumption divided by disposable income.
Average propensity to save :	Fraction of disposable income which household save; saving divided by disposable income.
Average revenue :	Total revenue from the sale of a product divided by the quantity of the product sold equal to the price at which the product is sold so long as all units of product are sold at same price.
Average tax rate :	Total tax paid divided by total income; the tax rate on total income.

Average total cost :	A firm's total cost divided by output; equal to average fixed cost plus average variable cost.
Capital :	Human made resources (machinery and equipment) used to produce goods and services; goods which do not directly satisfy human wants; capital goods.
ntral bank :	A bank whose chief function is the control of the nation's money supply
Circular flow of income :	The flow of resources from households to firms and of products from firms to household accompanied in an economy using money by flows of money from households to firms and from firms to households.
Economic development :	The process of growth by which countries raise income per capita and become industrialized; also refers to the branch of economics that studies this process.
Final good :	A new good that undergoes no further processing before it is sold to consumers.
GDP deflator nominal :	GDP divided by real GDP; it measures the level of prices of goods and services included in real GDP relative to a given base year.
Gross investment :	The total amount of investment, including that which goes to replacing worn-out capital.
Balanced budget multiplier :	The effect of equal increases (decreases) in government spending for goods and services and in taxes is to increase (decreases) the equilibrium gross domestic product by the amount of the equal increase (decrease)
Balance of payments deficit :	The sum of balance on current account and the balance on the capital account is negative.
Balance of payments surplus :	The sum of the balance on current account and the balance on capital account is positive
Bank deposits :	The deposits which banks have at the Federal Reserve Bank
Bankers bank :	A bank which accepts the deposits of and makes loans to Depositary institutions; a federal reserve bank.
Bank reserves :	Bank reserves held at the Federal Reserve banks plus bank vault cash
Inflation rate :	The percentage increase in the overall price level over a given period of time, usually one year.

Keynesian revolution : A change in macroeconomic thinking, shaped by the Great Depression and the work of John Maynard Keynes, leading to a greater consideration of demand-side policies.

M1 : Currency plus checking deposits plus traveler's checks.

Money multiplier : The multiple by which the money supply changes due to a change in the monetary base.

National income : The sum of labor income and capital income.

National saving : Aggregate income minus consumption minus government purchases.

National saving rate : The proportion of GDP that is saved, neither consumed nor spent on government purchases; equals national saving (S) divided by GDP, or S/Y. It also equals 1 minus the consumption share minus the government purchases share of GDP

Nationalization : The taking over of private firms by the government.

Natural unemployment rate : The unemployment rate that exists in normal times when there is neither a recession nor a boom and real GDP is equal to potential

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Neoclassical growth school : An approach to macroeconomics that uses the aggregate production function and the growth accounting formula in describing long-term growth, emphasizing aggregate supply.rather than aggregate demand.

Net exports : The value of goods and services sold abroad minus the value of goods and services bought from the rest of the world; exports minus imports.

Net investment : Gross investment minus depreciation

Budget deficit : The amount by which the expenditures of the Federal government exceed its revenues in any year.

Built-in-stability : The effect of non discretionary fiscal policy on the economy; when net taxes vary directly with the gross domestic product, the fall in net taxes during a recession (inflation) lessens unemployment (inflationary pressures).

Business cycle :	Recurrent ups and downs over a period of years in the level of economic activity
Checkable deposit :	Any deposit in a commercial bank or thrift institution against which a check may be written ; includes demand deposits and share draft accounts.
Commodity money :	Commodity money a good used as money that has some intrinsic value in a no monetary use.
Crowding out :	Crowding out the decline in private investment owing to an increase in government purchases.
Currency :	Money in its physical form: coin and paper money.
Cyclical unemployment :	Unemployment due to a recession, when the rate of unemployment is above the natural rate of unemployment.
Deflation :	A decrease in the overall price level, or a negative inflation rate
Demand :	A relationship between price and quantity demanded
Demand shock :	A shift in one of the components of aggregate demand that leads to a shift in the aggregate demand/inflation curve.
Depreciation :	The decrease in an asset's value over time; for capital, it is the amount by which physical capital wears out over a given period of time.
Disinflation :	A reduction in the inflation rate.
Disposable income :	Incomes that households have to spend after taxes have been paid and transfers from the government have been received.
Economic growth :	An upward trend in real GDP, reflecting expansion in the economy over time; it can be represented as an outward shift in the production possibilities curve.

Economic rent : The price of something that has a fixed supply.

Equilibrium interest rate : The interest rate that equates the sum of consumption, investment, and net export shares to the share of GDP available for nongovernmental use.

Exchange rate : The price of one currency in terms of another

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Fixed exchange rate system : A system of international exchange rates in which the countries agree to maintain a predetermined value of their currencies in terms of other currencies.

Flexible exchange rate system : An international monetary system in which exchange rates are determined in foreign exchange markets and governments do not agree to fix them.

Frictional unemployment : Short-term unemployment arising from normal turnover in the labor market, such as when people change occupations or locations, or are new entrants.

Gross domestic product (GDP) : A measure of the value of all the goods and services newly produced in an economy during a specified period of time.

Human capital : A person's accumulated knowledge and skills.

Inflation : An increase in the overall price level.

Keynesianism : The philosophical, ideological and analytical views pertaining to Keynesian economics

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Keynesian school : A school of macroeconomic thought concerned with pursuing demand-side macroeconomic policies--primarily fiscal policies working through the multiplier--to reduce unemployment and encourage economic growth.

Labor : The number of hours people work in producing goods and services.

Labor force : All those who are either employed or unemployed.

Labor union : A coalition of workers, organized to improve wages and working conditions of their members.

Life-cycle : Model a type of forward-looking consumption model that assumes that people base their consumption decisions on their expected lifetime income rather than on their current income.

Loanable funds theory of interest : The concept that the supply of and demand for loanable funds determines the equilibrium rate of exchange.

M2 : M1 plus savings, time, and limited checking deposits

Macroeconomics : The branch of economics that examines the workings and problems of the economy as a whole--economic growth, inflation, unemployment, and economic fluctuations.

Marginal propensity to consume (MPC) : The slope of the consumption function, showing the change in consumption that is due to a given change in income

Marginal propensity to save (MPS) : The change in saving due to a given change in income; MPS -1- marginal propensity to consume (MPC)

Money : That part of a person's wealth that can be readily used for transactions; money also serves as a store of value and a unit of account.

Money supply : The sum of currency (coin and paper money) held by the public and deposits at banks

Money demand : A relationship between the interest rate and the quantity of money that people are willing to hold at any given interest rate.

New Keynesian school : A school of macroeconomics that holds that prices are sticky and expectations are rational to explain the effect of monetary and fiscal policy.

Nominal interest rate : The interest rate uncorrected for inflation

Open-market operation :	The buying and selling of bonds by the central bank.
Permanent income model :	A type of forward-looking consumption model that assumes that people distinguish between temporary changes in their income and permanent changes in their income; the permanent changes have a larger effect on consumption.
Phillips curve :	A downward-sloping relationship between inflation and unemployment; originally found by A. W. Phillips in data from the late 1800s and early 1900s.
Progressive tax :	A tax for which the amount of an individual's taxes rises as a proportion of income as the person's income increases.
Purchasing power parity :	The theory that exchange rates are determined in such a way that the prices of goods in different countries are the same when measured in the same currency.
Purchasing power parity exchange rate :	An exchange rate such that the prices of similar goods in different countries are the same when measured in the same currency.
Quantity equation of money :	The equation relating the price level and real GDP to the quantity of money and the velocity of money: The quantity of money times its velocity equals the price level times real GDP; in terms of growth rates it states that money growth plus velocity growth equals inflation plus real GDP growth.
Quota :	A governmental limit on the quantity of a particular good sold or import
Rational expectations :	Assumption the assumption that people forecast the future no better or no worse than economic forecasters.
Real exchange rate :	A measure of the exchange rate between two currencies that adjusts for differences in inflation levels in the two countries.
Real gross domestic product (real GDP) :	A measure of the value of all the goods and services newly produced in a country during some period of time, adjusted for inflation
Ricardian equivalence :	The view that a change in taxes today will not affect consumption because people recognize that their or their children's, future tax burden will change in an opposite direction.

Seasonal unemployment :	Unemployment that varies with the seasons of the year due to seasonal fluctuations in supply or demand for labor.
Stagflation :	The situation in which high inflation and high unemployment occur simultaneously
Structural unemployment :	Long-term unemployment due to structural problems such as poor skills or longer-term changes in demand or insufficient work incentives.
Supply :	A relationship between price and quantity supplied.
Tariff :	A tax on imports
Transfer payment :	A grant of funds from the government to an individual.
Unemployment insurance :	Unemployment insurance a program that makes payments to people who lose their jobs.
Unemployment rate :	The ratio (usually expressed as a percentage) of unemployed workers to the labor force.
Value added :	The value of the firm's production minus the value of the intermediate goods used in production.
Wage :	The price of labor defined over a period of time worked
World Bank :	An international agency, established after World War II, designed to promote the economic development of poorer countries through lending channeled from industrialized countries.
World Trade Organization (WTO) :	An international organization that can mediate trade disputes.
Yield :	The annual rate of return on a bond if the bond were held to maturity.

Recession :	A decline in real GDP that lasts for at least six months.
Short run :	The period of time during which it is not possible to change all inputs to production; only some inputs, such as labor, can be changed
New classical school :	A school of macroeconomics that holds that prices are perfectly flexible, expectations are rational, and therefore anticipated monetary policy will have no effect on the economy.
Nominal GDP :	Gross domestic product without any correction for inflation; the same as GDP; the value of all goods and services newly produced in a country during some period of time, usually a year.
Opportunity cost :	The value of the next-best foregone alternative that was not chosen because something else was chosen.
Paper money :	Currency made of paper that has no intrinsic value
Patent law :	A grant giving an inventor exclusive rights to use an invention for 17 years.
Real interest rate :	The interest rate minus the expected rate of inflation; it adjusts the nominal interest rate for inflation.
Research and development (R & D) :	Activities designed to further scientific knowledge and develop new products.
Sales tax :	A type of excise tax that applies to total expenditures on a broad group of goods