

Unit II: Monitoring the Macroeconomy

Topic 1: GDP Basics & the Circular Flow

Topic 2: The Business Cycle, Labor, and Unemployment

Topic 3: Inflation & the CPI

“It is important to identify and examine the key measures of economic performance: gross domestic product, unemployment, and inflation.”

In studying the concept of gross domestic product, it is also important that students learn how gross domestic product is measured, have a clear understanding of its components, and be able to distinguish between real and nominal gross domestic product. The course should examine the nature and causes of unemployment, the costs of unemployment, and how the unemployment rate is measured, including the criticisms associated with the measurement of the unemployment rate. It is also important to understand the concept of the natural rate of unemployment and the factors that affect it. Students should also have an understanding of inflation and how it is measured. In this section, the course should cover the costs of inflation, the main price indices, such as the consumer price index (CPI) and the gross domestic product deflator. Students should learn how these indices are constructed and used to convert nominal values into real values, as well as to convert dollar values in the past to dollar values in the present. It is also important to highlight the differences between the two price indices as a measure of inflation, as well as the problems associated with each measure.”

(http://apcentral.collegeboard.com/apc/public/repository/ap08_economics_coursedescrip.pdf)

Topics Covered:

- II. Measurement of Economic Performance (12-16%)
 - A. National income accounts
 - 1. Circular Flow
 - 2. Gross domestic product (GDP)
 - 3. Components of GDP
 - 4. Real versus nominal GDP
 - B. Inflation measurement and adjustment
 - 1. Price indices
 - 2. Nominal and Real values
 - 3. Costs of inflation
 - C. Unemployment
 - 1. Definition and Measurement
 - 2. Types of unemployment
 - 3. Natural rate of unemployment