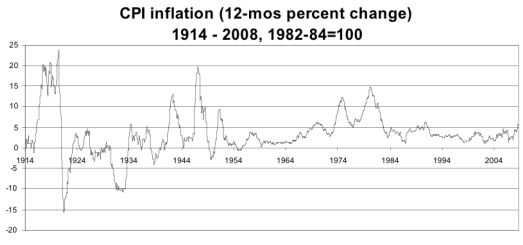
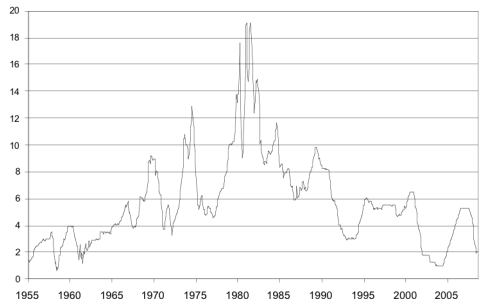
U.S. Economy at a Glance

- Unemployment rate – 6.1% (Aug., 2008)
- Inflation – 5.4% (Aug., 2008)
- Inflation (exc. Food and energy) – 2.5% (Aug., 2008)
- Federal funds rate – 2.00% since 4/30/08
- GDP growth rate – 2.8% (2008Q2; 0.9% in 2008Q1; -0.2 in 2007Q4)

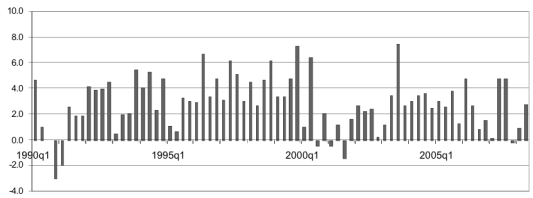


CPI inflation (12-mos percent change)
1950 - 2008, 1982-84=100

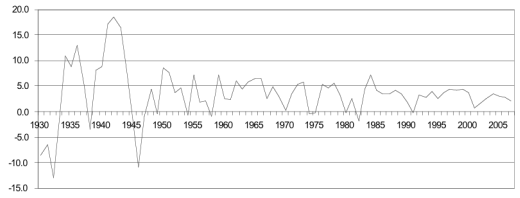
U.S. Federal Funds Rate
1955 - 2008



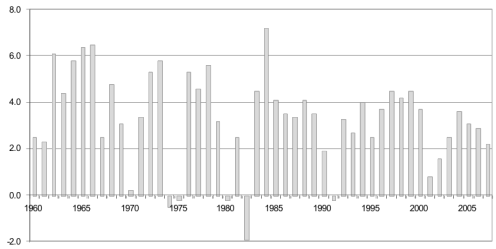
Real GDP Growth Rates (Q-to-Q, annualized)
1990Q1 - 2008Q1



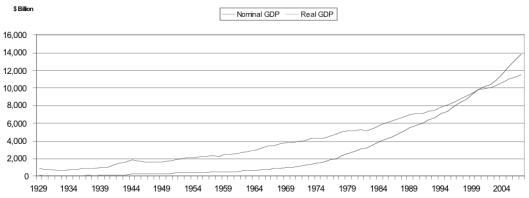
Real GDP Growth Rates
1930 - 2007



Real GDP Growth Rates 1960 2007



Nominal vs. Real GDP
1929 - 2007



Gross Domestic Product

- **GDP** = sum of the money values of **all final goods and services** produced in the domestic economy **within a certain time period**.
- **Nominal GDP (GDP in current dollars)** values each good and service **at the price at which it was actually sold** during the time period.

Gross Domestic Product

- What Gets Counted in GDP?
  - Only goods and services produced **within a certain time period**, usually a year or quarter
  - Only **final** goods and services
  - Only production **within the geographic boundaries** of the United States (c.f. GNP)

How to construct GDP

	2003		2004	
	Quantity	Price	Quantity	Price
Cars	10	$2,000	12	$3,000
Computers	4	$1,000	6	$500
Oranges	1000	$1	1000	$1

Gross Domestic Product

- Drawback of Nominal GDP: it changes when **prices change** even if there is no change in actual production.
- Solution: calculate **real GDP** or GDP in constant dollars.
- Distinction between **Nominal** and **Real GDP** ➔ a working definition of a recession as a period in which real GDP declines

Nominal & real GDP, and GDP deflator

Year	Nominal GDP (billions of current $)	Real GDP (2000 = 100, Chained)	GDP Deflator
1997	8,304.3	8,703.5	95.4
1998	8,747.0	9,066.9	96.5
1999	9,268.4	9,470.3	97.9
2000	9,817.0	9,817.0	100.0
2001	10,128.0	9,890.7	102.4
2002	10,469.6	10,048.8	104.2
2003	10,960.8	10,301.0	106.4
2004	11,712.5	10,703.5	109.4
2005	12,455.8	11,048.6	112.7
2006	13,246.6	11,415.3	116.0

Nominal and Real GDP

	Nominal GROSS DOMESTIC PRODUCT (Billions dollars)	Real GDP in 2000 PRICES (Billions dollars)	GDP DEFLATOR (2000=100)
1998	8746.97	9066.87	96.47
1999	9268.42	9470.35	97.87
2000	9816.97	9816.95	100.00
2001	10127.9	9890.65	102.4
2002	10487	10074.8	104.09
2003	11004	10381.3	106.00

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	Nominal GROSS DOMESTIC PRODUCT (Billions dollars)	Real GDP in 2000 PRICES (Billions dollars)	GDP DEFLATOR (2000=100)
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2003	11004	10381.3	106.00

Gross Domestic Product

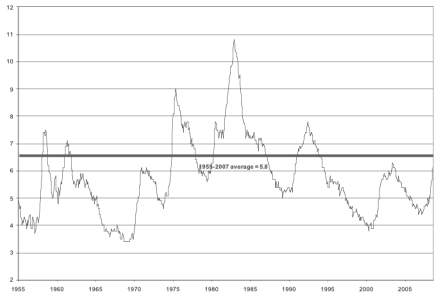
- Limitations of the GDP: What GDP Is Not
  - Includes **only market activities**
  - Places **no value on leisure**
  - Counts "**bads**" as well as "goods"
  - Does **not deduct ecological costs** of economic activity

Compositions of GDP

Y = C + I + G + (X – M)

Year				2005
Gross domestic product				11,048.6
Personal consumption expenditures (C)	Total			7,841.2
	Durable goods			1,145.3
	Nondurable goods			2,276.8
	Services			4,436.6
Gross private domestic investment (I)	Total			1,866.3
	Fixed investment	Total		1,842.0
		Nonresidential	Total	1,223.8
			Structures	251.5
			Equip. & software	984.9
		Residential		608.0
	Change in private inventories			19.6
Net exports of goods and services (X – M)	Total			-619.2
	Exports			1,196.1
	Imports			1,815.3
Government consumption expenditures and gross investment (G)	Total			1,958.0
	Federal	Total		727.5
		National defense		483.6
		Nondefense		243.7
	State and local			1,230.4

U.S. Unemployment Rate, 1955:1 - 2008:8



Comparison of International Unemployment

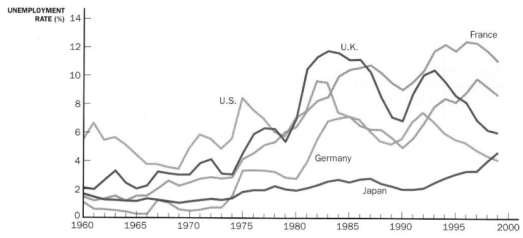


Figure 5.4 *Comparisons of International Unemployment*

What could high unemployment mean?

- A serious personal problem for the unemployed
  - Income forgone
  - Psychological distress
- Signaling from the economy
  - Where the economy stands w/r/t its potential
  - Which industry needs structural reallocation of resources

Types of Unemployment

Frictional Unemployment:

- Joblessness experienced by people who are between jobs or who are just entering or reentering the labor market.

Structural Unemployment:

- Joblessness arising from mismatches between worker's skills and employer's locations

Seasonal Unemployment:

- Joblessness related to changes in weather, tourist patterns, or other seasonal factors

Cyclical Unemployment:

- Joblessness arising from changes in production over the business cycle

What is the Natural Rate of Unemployment?

- The level of unemployment characterizing the economy in LR equilibirum
- Determined by the levels of frictional, structural, and institutionally induced unemployment
- At this rate, inflation should be constant = **N**on-**A**ccelerating **I**nflation **R**ate of **U**nemployment (**NAIRU**)

How Much Unemployment is "Full Employment"?

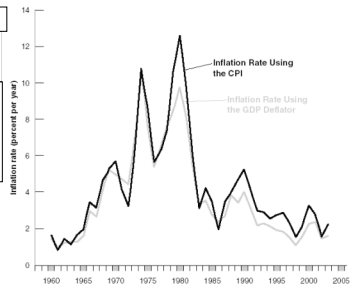
- It was once thought that 4% was a good target.
- Events from the early 1990s through 2002 have left economists uncertain of the full-employment unemployment rate.

The Consumer Price Index

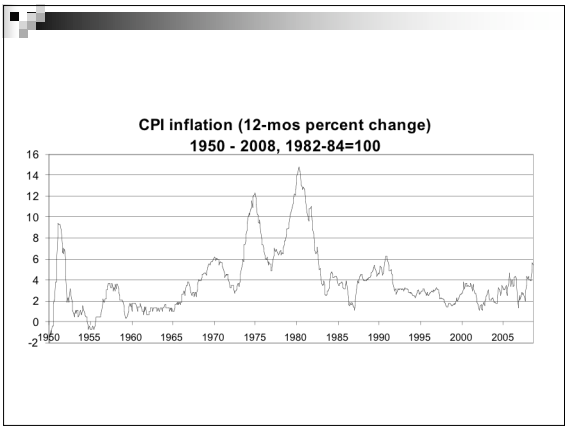
Figure 2-4

Inflation Rate, Using the CPI and the GDP Deflator since 1960

The inflation rates, computed using either the CPI or the GDP deflator, are largely similar.



Germany in 1920s


CPI inflation (12-mos percent change)
1950 - 2008, 1982-84=100
16
14
12
10
8
6
4
2
0
-2
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005