Supply and Demand in Macroeconomics

- The aggregate demand curve shows the quantity of domestic product that is demanded at each possible value of the price level.

- The aggregate supply curve shows the quantity of domestic product that is supplied at each possible value of the price level.
Supply and Demand in Macroeconomics

- **Inflation** refers to a sustained increase in the general price level.
- A **recession** is a period of time during which the total output of the economy declines (2 quarterly declines)
Supply and Demand in Macroeconomics

- A reduction in aggregate demand may be associated with unemployment.
The Realm of Macroeconomics
The Realm of Macroeconomics

- **Gross Domestic Product**
  - The GDP is the sum of the money values of all final goods and services produced in the domestic economy within the year.
  - **Nominal GDP** is calculated by valuing all outputs at current prices.
  - **Real GDP** is calculated by valuing outputs of different years at common prices.
Gross Domestic Product

- Final goods and services are those that are purchased by their ultimate users.
- An intermediate good is a good purchased for resale or for use in producing another good.
Limitations of the GDP: What GDP Is Not

- Only market activities are included in GDP.
- GDP places no value on leisure.
- "Bads" as well as "goods" get counted in GDP.
- Ecological costs of economic activity are not deducted.
The Realm of Macroeconomics

The Growth Rate of Real Gross Domestic Product of the United States
1870-1995

Year
Growth Rate of Real GDP (Percent)
-20 -15 -10 -5 0 5 10 15 20

- Pre-1940
- Railroad prosperity
- Depression of 1890s
- Panic of 1907
- Postwar depression
- Great Depression
- Postwar recession
- World War II
- Korean War
- Record expansion of 1960s
- Expansion of 1980s
- 1974-75 Recession
- 1982-83 Recession
- 1990-91 Recession

- Post-1950
- Rapid industrialization
- Roaring Twenties

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The Inflation Rate in the United States, 1870-1995

- Pre-1940
- Post-Civil War deflation
- Postwar deflation
- Great Depression
- World War I
- World War II
- Postwar adjustment
- Inflation of the 1970s
- Disinflation of the 1980s
- Vietnam War inflation
- Post-1950
The Great Stagflation, 1973-1980

- The international price of oil was raised sharply in 1973 and again in 1979.

  » For that reason and some others, the period saw both unemployment and inflation increasing together.
Reaganomics and Its Aftermath

When Reagan assumed office in 1981, the economy went into a sharp tailspin, and soon the rate of inflation fell.

This was followed by a period of steady, non-inflationary growth during most of the 1980s.
Clintonomics

– Clinton's initial objectives were spurring growth and increasing public investment.

   » Soon, however, the overriding goal in Washington became deficit reduction.
Clintonomics

- Clinton's initial objectives were spurring growth and increasing public investment.
  
  » Whether by cause or coincidence, economic growth picked up, and inflation remained low.
The Realm of Macroeconomics