ECS 1500
Introduction to Economics

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Unit 7: Economic Indicators

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Lecture Outcomes
Units 1 - 10

**Outcome 1 – Introduction**
01 Introduction to Economic Environment
02 Understanding economic graphs

**Outcome 2 – Price determination**
03 Supply, Demand, Prices
04 Changes in Supply and Demand
05 Elasticity

**Outcome 3 – Macroeconomic perspective**
06 Measuring economic performance
07 Economic indicators

**Outcome 4 – 3 important sectors**
08 The Public Sector ➤ Budget
09 The Financial Sector ➤ Money Supply
10 The Foreign Sector ➤ Balance of Payments / Trade

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7.1 Introduction

7.2 Inflation
7.2.1 Consumer Price Inflation (CPI)
7.2.2 Producer Price Inflation (PPI)

7.3 Unemployment

7.4 Income Distribution
7.4.1 The Lorenz Curve
7.4.2 The Gini Coefficient

7.5 Business Cycles

7.6 Economic Growth
7.6.1 Calculating economic growth
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7.7 Summary

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Macroeconomic Objectives
1. Full employment
2. Price Stability
3. External Equilibrium
4. Economic growth
5. Equitable income

| GDP | Gross Natl Income | Gross Dom Expenditure | Disposable Income | Gross / Net capital formation |
---|-------------------|-----------------------|-------------------|-------------------------------|
Budget | Money Supply | Balance of Payments / Trade |
7.1 Economic Indicators

The need to measure in numbers

Macroeconomic Objectives
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7.2 Inflation
A sustained increase in the price level

**Macroeconomic Objectives**
1. Full employment
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**GDP deflator** comprehensive
- but slow and unstable;

**Producer Price Index** next popular alternative
- index that measures ΔP of imported and produced goods at first trade
- includes capital and intermediate goods
- excludes services
- imported goods counted on arrival in country
- produced goods counted at exit from family
- acts as a predictor of CPI
- weightings differ from CPI

**Consumer Price Index** most popular alternative
- index that measures changes in price of (a basket of) goods and services bought by an average consumer / household over time
- made up of categories of spend that have own price changes
- each category has a weighting
- changes in price produce an annual % change in CPI
7.3 Unemployment

Number of unemployed persons in total work force

Economically Active Population = Employed + Unemployed

Employed if
A Of working age (15–65)
B worked for pay, profit or family gain for at least 1 hour in 7 days before interview (includes employers, employees, the self-employed and working family members)

Unemployed if
Strict definition (1998 ILO based revision of definition)
A did not work in 7 days before interview
B want to work and can work within 7 days of interview

Expanded definition
C Took active steps to find work or start a business within 4 weeks of interview

Types
Frictional (search) = time between finding or moving to new job
Seasonal = layoffs due to work being seasonal
Cyclical = layoffs due to economic downswing
Structural = skills demanded do not match skills supplied

Macroeconomic Objectives
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7.4 Income Distribution
The need to measure in numbers

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Gini coefficient is a ratio between 0 and 1
Numerator = area inside the Lorenz curve and the diagonal = yellow
Denominator = the area under the uniform distribution line
0 = no area i.e. Lorenz curve is lying on the diagonal = perfect equality
1 = perfect inequality

Macroeconomic Objectives
1. Full employment
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7.5 Business Cycles

All economies are subject to periodic contractions and expansions.
7.6 Economic Growth

The annual rate of increase in growth or income in the country

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Nominal GDP
\[ x \times (1 - \text{inflation rate}) \]

Real GDP
Total production inside country regardless of owners of factors of production

LESS Wages, Profits, Interest, Rents etc earned by foreigners in SA

ADD Wages, Profits, Interest, Rents etc earned by permanent SA residents outside SA

= GNI / Population = R income per capita

GDP
Total production inside country regardless of owners of factors of production

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= GNI / Population = R income per capita

GNI
Net income earned by residents of country

Imports
Country's purchases of foreign goods

Exports
Country's sales of goods and services to foreign residents

Factor Market

Producers

Consumers

Make

Sell

Price
### 7.6 Growth Comparison

The annual rate of increase in growth or income in the country

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