Today in Class…

• The Final Exam Review (Part 2) is due when the bell rings for extra credit. It may not be turned in later in the class period.

• Chapter 11 will be completed today in class and needs to be turned in before you leave or it will be a zero.

• After we finish Chapter 11 and go over the answers to Part 1 of the review sheet, you will have the rest of class to work on your Stock Project and the next part of the review.
SECTION 3

Real GDP

We will be skipping this section.
It will not be on your Final Exam.

Basic concept of this section...

- **Real GDP** = Gross Domestic Product that has been adjusted for price changes. It is essentially GDP measured in constant prices determined by a base year.
SECTION 4

Measuring Price Changes and the Unemployment Rate

Calculating the Change in a Single Price

- When a good increases in price from one year to the next, it is easy to calculate the percentage of change in price.

- For example, if a home increased in price from $200,000 in 2004 to $220,000 in 2005, the percentage change in price was 10 percent.
Calculating Change in Price

Percentage change in price = \frac{\text{Price in later year} - \text{Price in earlier year}}{\text{Price in earlier year}} \times 100

\textbf{Example:} A home increases in price from $200,000 in 2004 to $220,000 in 2005.

Percentage change in price = \frac{$220,000 - $200,000}{$200,000} \times 100

= 10\%
The Consumer Price Index

- Economists are much more interested in what happens to prices in general than in what happens to a single price.
- A price index is a measure of the price level, or the average level of prices.
- The most widely used price index is the consumer price index (CPI).
- The consumer price index is calculated using a sampling of thousands of households. The survey asks what consumers paid for a group of goods that represent all the types of goods they might purchase in a year. This group of goods is called the market basket.
The percentage change in the CPI is equal to the CPI in the later year minus the CPI in the earlier year, divided by the CPI in the earlier year, multiplied by 100.

Taken individually, CPI numbers mean very little. But if we compare the numbers, we can learn what is happening to prices over time. What happened to prices in the United States between 1995 and 2004? (Answer: They rose fairly steadily.)
The Consumer Price Index (CPI)

Percentage change in CPI = \( \frac{\text{CPI}_{\text{later year}} - \text{CPI}_{\text{earlier year}}}{\text{CPI}_{\text{earlier year}}} \times 100 \)
The Unemployed, Unemployment Rates, and Employment Rates

- The total population can be divided into two major groups: the non-institutional adult civilian population, and all others.
- The non-institutional adult civilian population can be further subdivided into two groups: persons in the civilian labor force and persons not in the labor force.
- The unemployed are persons in the civilian labor force who are looking for work but do not have jobs.
The **unemployment rate** is the percentage of the civilian labor force that is unemployed. It is equal to the number of unemployed persons divided by the civilian labor force.

The **employment rate** is the percentage of the non-institutional adult civilian population that is employed. It is equal to the number of employed persons divided by the non-institutional adult civilian population.
Employment Status, Unemployment Rate, and Employment Rate

Breakdown of the total U.S. population by employment status

1. Persons under 16
2. Persons in the armed forces
3. Persons institutionalized

Total population → Noninstitutional adult civilian population → Not in labor force → Civilian labor force → Employed → Unemployed

Unemployment rate = \frac{Unemployed persons}{Civilian labor force}

Employment rate = \frac{Employed persons}{Noninstitutional adult civilian population}