

## Goals for this session

- Circular flow
  - Draw and explain circular flow.
- National accounting:  $Y=C+I+G+NX$ 
  - What do these letters all stand for
  - What is the relationship between them
- Vocabulary
  - Factor, and Factor Market
  - Capital (K)
  - Investment (hint: not talking about stock market)
  - Equilibrium

## Problems

1. There are three ways to measure GDP: The expenditure approach, income approach, and value-added approach. Use the circular flow model to show how they are all equivalent.<sup>1</sup>
2. In 1980 GDP was \$6.5 trillion. In 2010 it was \$14.8 trillion. List 3 reasons why GDP rose so much during that 30 year time span.<sup>1</sup>
3. For the following, which components of the national accounting equation ( $Y,C,I,G,NX$ ) go up, and which go down?
  - (a) Consumers buy more goods from abroad. (i.e. increase in imports).<sup>1</sup>
  - (b) Businesses buy more machines, however only from foreign companies
  - (c) Government buys more computers for its offices from domestic companies
  - (d) Foreigners hear about how good wisconsin cheese is, and decide to buy some.
4. What is the relationship between trade and GDP? (Hint: it is complicated)<sup>1</sup>
5. If  $NX < 0$ , what does that tell us about financial flows of money?<sup>1</sup>
6. Why is GDP considered a good measure of the ‘health’ of the economy?<sup>1</sup>
7. What happens to the circular flow and  $Y=C+I+G+NX$  when markets are not using all of their resources and savings are not being allocated to borrowers? (i.e. disequilibrium)<sup>1</sup>

## References

<sup>1</sup> Eudey’s ‘application’ questions from her slides.