

## Concepts and definitions

- GDP
- Per capita vs. aggregate terms
- Relation of income and expenditure in an economy
- Accounting identity
- Value added
- Nominal vs. real variables
- Price level
- Price index
- GDP basket vs. CPI basket
- Inflation rate
- Growth rate
- Exponential growth and its implications
- Catch-up growth vs. sustained growth
- Aggregate production function, its components and properties
- Technological progress
- Malthusian cycle
- Proximate vs. fundamental causes of growth
- Institutions, types and features
- Labor force, employment and unemployment
- Labor market indicators
- Frictional, structural and cyclical unemployment
- Natural unemployment
- Full employment
- Potential GDP, output gap
- Capital vs. financial capital
- Investment and depreciation
- Nominal and real interest rate
- Loanable funds market: demand, supply and equilibrium

## Formulas

Accounting identity:  $Y = C + I + G + NX$

GDP deflator:  $\text{GDP deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \cdot 100$

CPI:  $CPI = \frac{\text{nominal basket cost}}{\text{basket cost in base period prices}} \cdot 100$

Inflation rate (%):  $\pi_t = \frac{PI_t - PI_{t-1}}{PI_{t-1}} \cdot 100$

Nominal to real conversion:  $X_{current}^{base} = X_{current}^N \cdot \frac{PI_{base}}{PI_{current}}$

Growth rate of anything (%):  $g_t = \frac{X_t - X_{t-1}}{X_{t-1}} \cdot 100$

Exponential growth of a variable  $X$ :  $X_{t+n} = X_t \cdot (1 + g)^n$

Unemployment rate (%):  $UR = \frac{\text{unemployed}}{\text{labor force}} \cdot 100$

Employment-to-population ratio (%):  $EPR = \frac{\text{employed}}{\text{working age population}} \cdot 100$

Labor force participation rate (%):  $LFPR = \frac{\text{labor force}}{\text{working age population}} \cdot 100$

Real interest rate (%):  $r = i - \pi$

## How to study for the test

1. Make sure you understand all the concepts on page 1
2. Know formulas on page 2
3. Redo the homework – I compiled all the homeworks into one file which you can find on my website. I recommend printing it out and trying to work on it as you would on the test
4. Redo the quizzes
5. Try to come up with your own examples – this is a very good way to find out whether you truly understand a concept or not