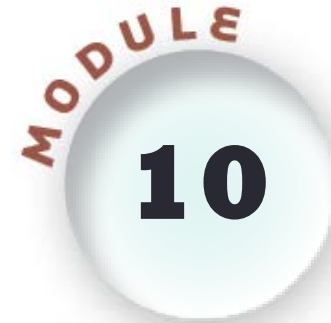


9 Introduction to Macroeconomics

10 The Circular-Flow Diagram and the National Accounts



11 Gross Domestic Product (GDP)

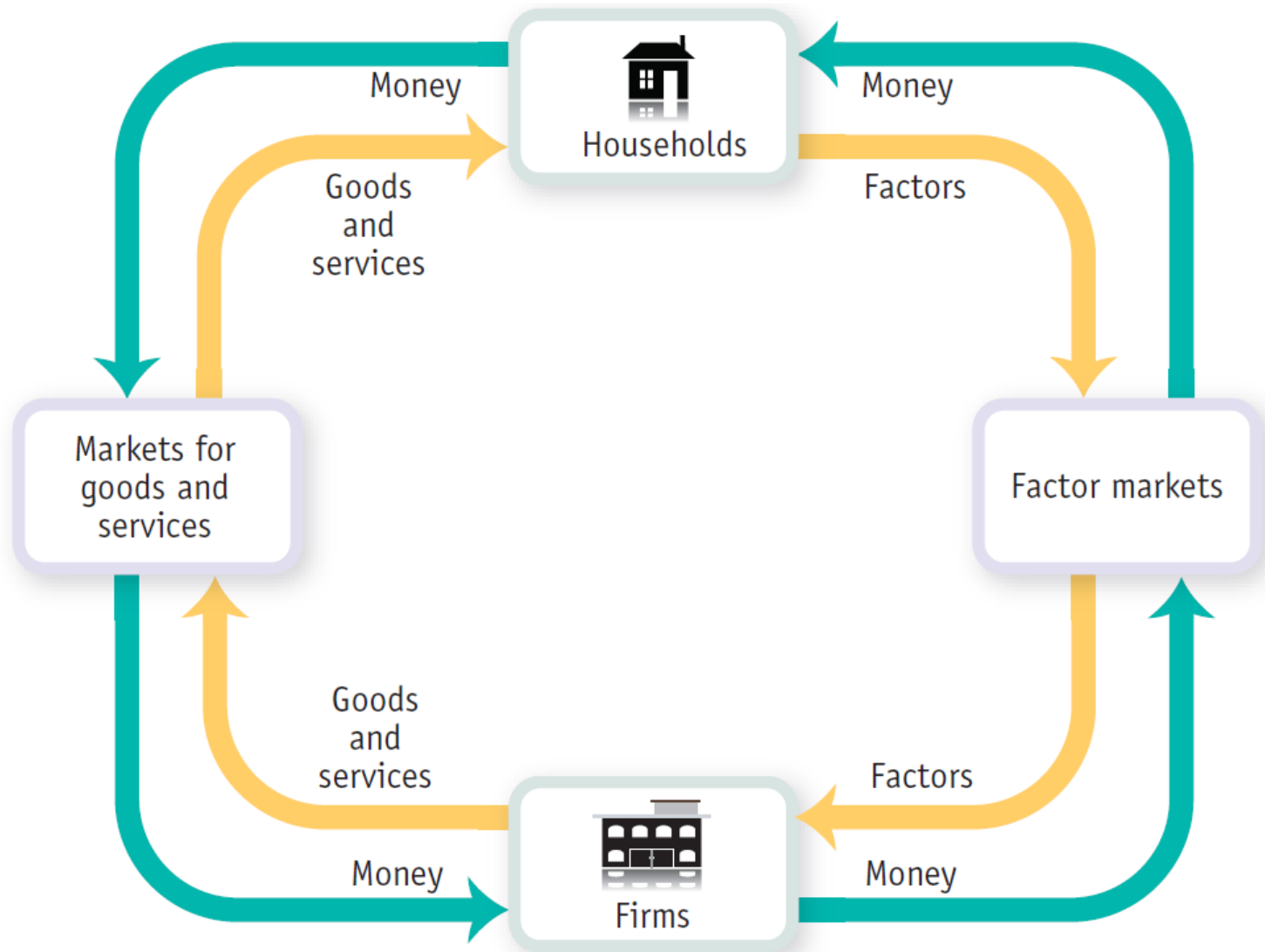
12 Interpreting Real Gross Domestic Product



The National Accounts

- Most countries calculate a set of numbers known as the **national income and product accounts**.
- The national income and product accounts keep track of the flows of money between different parts of the economy.
- The flows can be illustrated by a **circular-flow diagram**.

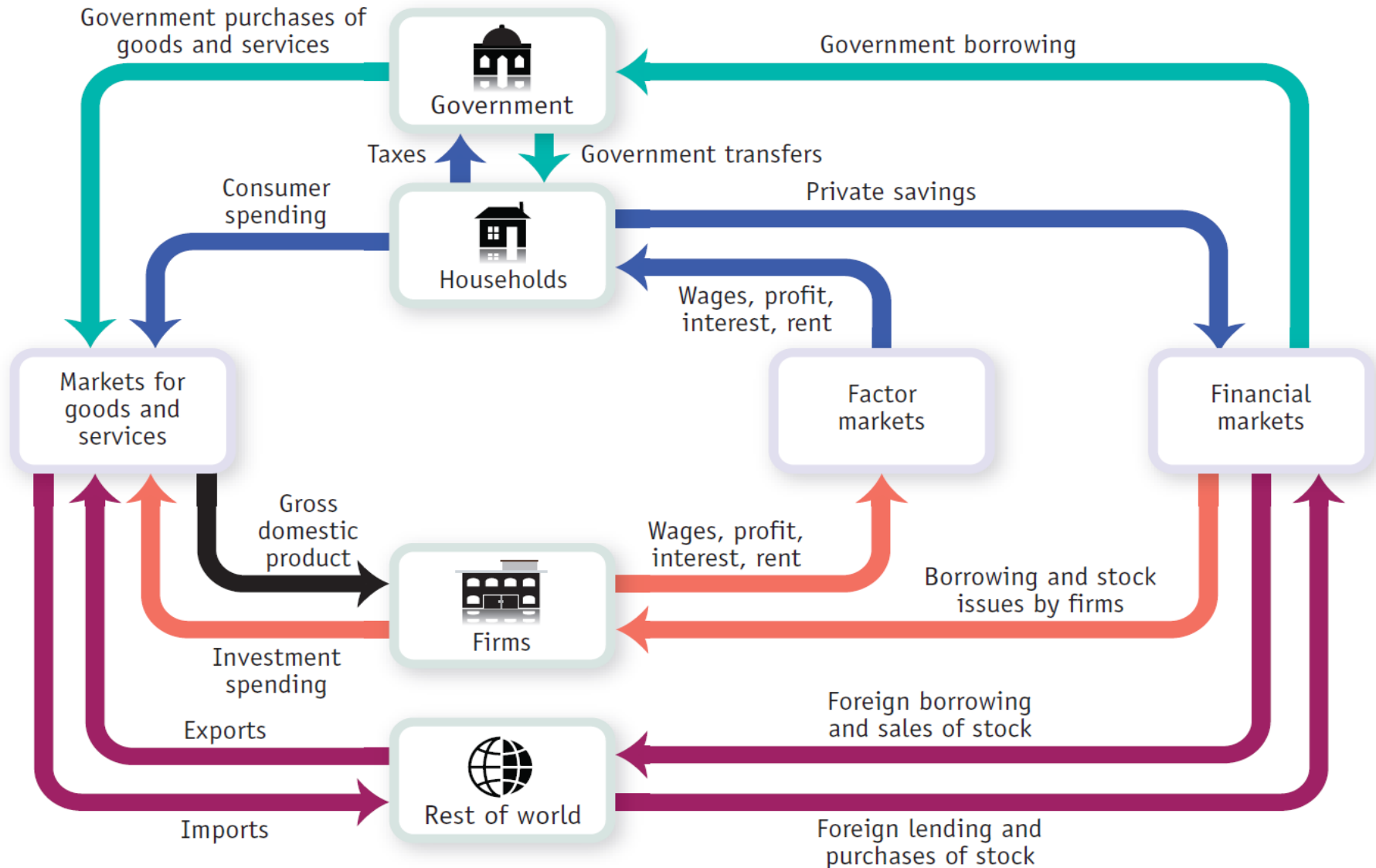
The Circular-Flow Diagram



The National Accounts

- **Product markets** are where goods and services are bought and sold.
- **Factor markets** are where resources like capital and labor are bought and sold.
- **Consumer spending** is household spending on goods and services.
- A **stock** is a share in the ownership of a company.
- A **bond** is a loan in the form of an IOU that pays interest.

An Expanded Circular-Flow Diagram



The National Accounts

- Households engage in **consumer spending**.
- Households own the factors of production. They sell these factors to firms, receiving **rent**, **wages**, interest on **bonds**, **dividends** on **stocks**.
- In addition, households receive **government transfers**.
- **Disposable income**, total household income minus taxes, is available to spend on consumption or to save.

The National Accounts

- **Private savings**, equal to disposable income minus consumer spending, is disposable income that is not spent on consumption.
- The **financial markets** channel private savings and foreign lending into investment spending, government borrowing, and foreign borrowing.

The National Accounts

- **Government purchases of goods and services** (G) is paid for by tax receipts as well as by **government borrowing**.
- **Exports** (X) generate an inflow of funds into the country from the rest of the world, while **imports** (IM) lead to an outflow of funds to the rest of the world.

The National Accounts

- **Inventories** are stocks of goods and raw materials held to facilitate business operations.
- **Investment** is spending on productive physical capital, such as machinery and construction of structures, and on changes to inventories.