MACROECONOMICS

1. Gross Domestic Product (GDP)

GDP is the total monetary value of all FINAL goods and services produced within a country's borders during a specific time period (usually a year). It measures a nation's economic performance.

Key features:

- Counts only FINAL goods (no double-counting).
- Measures production inside the country, regardless of producer nationality.
- Expressed in monetary terms.

Example:

If Bangladesh produces garments worth 500 billion taka, rice worth 200 billion taka, and digital services worth 100 billion taka, then GDP = 800 billion taka.

GDP Components

Consumption (C)
Investment (I)
Government Spending (G)
Net Exports (NX = Exports - Imports)

2. Ways to Measure GDP

1. **Production Method:** Sum of value added at each stage of production.
2. **Income Method:** Sum of wages, rent, interest, and profits.
3. **Expenditure Method:** GDP = C + I + G + NX

3. GDP Growth Rate

GDP growth rate measures how fast an economy is expanding. It compares GDP from one period to another.

Formula:

GDP Growth Rate = ((GDP this year – GDP last year) / GDP last year) × 100

Example:

GDP last year: $100 billion
GDP this year: $110 billion Growth = 10%

4. Unemployment & Inflation (Types)

Unemployment occurs when individuals are willing to work but cannot find jobs.
Types of Unemployment:
• **Frictional:** Temporary unemployment (e.g., switching jobs).
• **Structural:** Skills mismatch (e.g., automation replacing workers).
• **Cyclical:** Due to economic recession.
• **Seasonal:** Varies with seasons (e.g., agriculture, tourism).

Inflation is a sustained rise in the average price level.
Types of Inflation:
• **Demand-Pull:** Too much demand chasing too few goods.
• **Cost-Push:** Higher production costs increase prices.
• **Built-In:** Wage-price spiral.
• **Hyperinflation:** Extremely rapid inflation (e.g., Zimbabwe).
• **Deflation:** General drop in prices.

5. Unemployment Rate & Economic Growth

Unemployment Rate Formula:
Unemployment Rate = (Unemployed ÷ Labor Force) × 100

Economic Growth refers to an increase in real GDP. It indicates higher production, income, and standard of living.

Relationship:

• Higher growth → more jobs → lower unemployment.

• Recession → business closures → higher unemployment.

6. GNP and GDP Deflator

GNP (Gross National Product): Measures total output produced by a country's citizens, regardless of location.
Example: A Bangladeshi engineer working in Dubai contributes to Bangladesh's GNP, not GDP.

GDP Deflator:
GDP Deflator = (Nominal GDP / Real GDP) × 100
It measures price changes across the entire economy.

7. GDP vs CPI

GDP Deflator: Includes ALL goods produced domestically.
CPI: Includes only a fixed basket of consumer goods.

Key Differences:
• CPI includes imports; GDP deflator does not.
• GDP deflator includes capital goods; CPI does not.

---

8. Disposable Income

Disposable Income = Personal Income – Taxes.

Example:

If salary = 50,000 taka and taxes = 5,000 taka → Disposable Income = 45,000 taka.

---

9. Fiscal Policy & Monetary Policy

Fiscal Policy: Government taxes and spending to influence the economy.
• Expansionary: Lower taxes, higher spending.
• Contractionary: Higher taxes, lower spending.

Monetary Policy: Central bank controls money supply and interest rates.
• Expansionary: Lower interest rates → more spending.
• Contractionary: Higher interest rates → reduce inflation.

---

10. Cash Reserve Ratio (CRR)

CRR is the percentage of bank deposits that must be kept with the central bank.
Effects:
Higher CRR → less lending → reduced money supply.
Lower CRR → more lending → increased money supply.
Example:
If CRR = 5%, then for every 100 taka deposit, the bank must keep 5 taka as reserve.