



## FORMULAS FOR MACROECONOMICS

### Key Formulas in Macroeconomics

1.  $GDP = C + I + G + X_n$ : The expenditure approach to measuring GDP
2.  $GDP = W + I + R + P$ : The income approach to measuring GDP
3. Calculating nominal GDP: The quantity of various goods produced in a nation times their current prices, added together.
4. GDP deflator: A price index used to adjust nominal GDP to arrive at real GDP. Called the 'deflator' because nominal GDP will usually over-state the value of a nation's output if there has been inflation.
5. Real GDP:  $\frac{Nominal\ GDP}{GDP\ deflator} \times 100$
6. GDP Growth rate:  $\frac{Current\ year's\ GDP - Last\ year's\ GDP}{Last\ year's\ GDP} \times 100$
7. The inflation rate via the CPI:  $\frac{This\ year's\ CPI - Last\ year's\ CPI}{Last\ year's\ CPI} \times 100$
8. Real interest rate = nominal interest rate – inflation rate.
9. Unemployment Rate =  $\frac{Number\ of\ Unemployed}{Number\ in\ the\ labor\ force} \times 100$
10. Money Multiplier =  $\frac{1}{RRR}$
11. Quantity theory of money:  $MV = PY$  – a monetarist's view which explains how changes in the money supply will affect the price level assuming the velocity of money and the level of output are fixed.
12.  $MPC + MPS = 1$ . Households may consume or save with any change in their income.
13. Spending Multiplier =  $\frac{1}{1 - MPC}$  or  $\frac{1}{MPS}$
14. Tax multiplier =  $-MPC/MPS$ . It tells you how much total spending will result from an initial change in the level of taxation. It is negative because when taxes decrease, spending increases, and vis versa. The tax multiplier will always be smaller than the spending multiplier.

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