National Income and Price Determination

AP Macroeconomics · Vocabulary in context

Word	Example
aggregate demand (AD) /ˈægrɪgeɪt dɪˈmænd/	**Aggregate demand (AD)** is all the spending in an economy.
price level /praɪs ˈlevl/	The **price level** is the average of all prices in the economy.
wealth effect /welθ ɪˈfekt/	The **wealth effect**: when prices rise, people's savings buy less, so they spend less.
interest-rate effect /ˈɪntrest reɪt ɪˈfekt/	The **interest-rate effect**: higher prices push up interest rates, so firms invest less.
net-export effect	The **net-export effect**: higher prices at home make exports harder to sell.
consumer confidence /kənˈsuːmə ˈkɒnfɪdəns/	A fall in **consumer confidence** makes people spend less.
multiplier effect /ˌmʌltɪˈplaɪə ɪˈfekt/	The **multiplier effect** means $1 of new spending raises GDP by more than $1. $1 GDP $1
marginal propensity to consume /ˈmɑːdʒɪnl prəˈpensɪti tə kənˈsjuːm/	The **marginal propensity to consume** is the share of extra income that people spend.
marginal propensity to save /ˈmɑːdʒɪnl prəˈpensɪti tə seɪv/	The **marginal propensity to save** is the share of extra income that people save.
spending multiplier /ˈspendɪŋ ˌmʌltɪˈplaɪə/	A **spending multiplier** of 4 turns £40 of spending into £160 of output. 4 £40 £160

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tax cut	A **tax cut** leaves people more money to spend.
balanced-budget multiplier	The **balanced-budget multiplier** is 1: raising spending and taxes by $10 raises GDP by $10. 1 $10 GDP $10
short-run aggregate supply (SRAS) /ʃɔːt rʌn ˈægrɪgeɪt səˈplaɪ/	**Short-run aggregate supply (SRAS)** slopes upward.
input prices /ˈɪnpʊt ˈpraɪsɪz/	Higher **input prices**, like oil and wages, raise firms' costs.
nominal wages /ˈnɒmɪnl ˈweɪdʒɪz/	**Nominal wages** are wages in money, before prices are taken into account. `
sticky /ˈstɪki/	Wages are **sticky**: they change slowly.
productivity /ˌprɒdəkˈtɪvɪti/	Better machines raise **productivity**: more output per hour.
supply shocks /səˈplaɪ ʃɒks/	Sudden oil-price rises are **supply shocks**.
long-run aggregate supply (LRAS) /lɒŋ rʌn ˈægrɪgeɪt səˈplaɪ/	**Long-run aggregate supply (LRAS)** is a vertical line.
full-employment (potential) output /fʊl emˈplɔɪmənt ˈaʊtpʊt/	At **full-employment (potential) output**, all resources are used normally.
economic growth /ˌiːkəˈnɒmɪk grəʊθ/	**Economic growth** means the economy makes more each year.
production possibilities curve (PPC) /prəˈdʌkʃn ˌpɒsəˈbɪlɪtiz kɜːv/	A **production possibilities curve (PPC)** shows the most a country can make of two goods.

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real GDP /rɪəl ˌdʒiː diː ˈpiː/	**Real GDP** removes the effect of rising prices.
recessionary gap /rɪˈseʃənəri gæp/	A **recessionary gap** means the economy produces less than it could.
inflationary gap /ɪnˈfleɪʃənəri gæp/	An **inflationary gap** means the economy produces more than it can keep up.
long-run equilibrium /lɒŋ rʌn ˌiːkwɪˈlɪbrɪəm/	At **long-run equilibrium**, the economy is at full employment.
demand shock	A sudden fall in spending is a **demand shock**.
stagflation /stægˈfleɪʃn/	**Stagflation** is high inflation together with high unemployment.
fiscal policy /ˈfɪskl ˈpɒlɪsi/	Changing taxes and government spending is **fiscal policy**.
expansionary /ekˈspænʃənəri/	An **expansionary** policy aims to raise aggregate demand.
contractionary /kənˈtrækʃənəri/	A **contractionary** policy aims to reduce aggregate demand.
time lags /taɪm lægz/	Interest rate changes work with **time lags** of up to two years.
crowding out /ˈkraʊdɪŋ aʊt/	**Crowding out** happens when government borrowing leaves less money for firms.
automatic stabilizers /ˌɔːtəˈmætɪk ˈsteɪbəlaɪzəz/	Unemployment benefits are **automatic stabilizers**: they rise by themselves in a recession.

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progressive taxes /prəˈgresɪv ˈtæksɪz/	**Progressive taxes** take a higher income share as income rises.
transfer payments /ˈtrænsfɜː ˈpeɪmənts/	Pensions are **transfer payments**.
discretionary /dɪˈskreʃənəri/	A new tax cut is a **discretionary** policy.
tax multiplier /tæks ˌmʌltɪˈplaɪə/	With an MPC of 0.8, the **tax multiplier** is −4. MPC 0.8 −4

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