Principles of Macroeconomics

University Business · Vocabulary in context

Word	Example
macroeconomics /ˌmækrəˌriːkəˈnɒmɪks/	**Macroeconomics** studies the whole economy.
circular flow	The **circular flow** shows that one person's spending is another's income.
gross domestic product /ɡrəʊs dəˈmestɪk ˈprɒdʌkt/	**Gross domestic product** is the value of everything a country makes in a year.
value added /ˈvæljuː ˈædɪd/	Counting only **value added** stops us counting the same flour twice.
nominal /ˈnɒmɪnl/	**Nominal** GDP uses today's prices. GDP
real /rɪəl/	**Real** GDP removes the effect of rising prices. GDP
GDP deflator /ˌdʒiː diː ˈpiː diːˈfleɪtə/	The **GDP deflator** measures how much prices have risen.
total factor productivity	**Total factor productivity** is growth that more workers and machines do not explain.
capital /ˈkæpɪtl/	Machines and buildings are **capital**.
rule of 70	By the **rule of 70**, growth of 7% a year doubles income in 10 years. 7% 10
consumer price index /kənˈsuːmə praɪs ˈɪndeks/	The **consumer price index** measures the price of a basket of household goods.
inflation /ɪnˈfleɪʃn/	**Inflation** means prices in general are rising.

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Fisher equation /ˈfɪʃə ɪˈkweɪʒn/	The **Fisher equation** links interest rates and inflation.
unemployment rate /ʌnemˈplɔɪmənt reɪt/	The **unemployment rate** counts only people looking for work.
Phillips curve /ˈfɪlɪps kɜːv/	The **Phillips curve** shows that low unemployment often comes with high inflation.
reserve ratio /rɪˈzɜːv ˈreɪʃɪəʊ/	A **reserve ratio** of 10% means banks keep £10 of every £100. 10% £100 £10。
money multiplier /ˈmʌni ˌmʌltɪˈplaɪə/	The **money multiplier** shows how bank lending creates more money.
marginal propensity to consume /ˈmɑːdʒɪnl prəˈpensɪti tə kənˈsjuːm/	The **marginal propensity to consume** is the share of extra income that people spend.
multiplier /ˌmʌltɪˈplaɪə/	The **multiplier** means £1 of new spending can create more than £1 of income. £1 £1
crowding out /ˈkraʊdɪŋ aʊt/	**Crowding out** happens when government borrowing leaves less money for firms.
balance of payments /ˈbæləns ɒv ˈpeɪmənts/	The **balance of payments** records all money in and out of a country.
current account /ˈkʌrənt əˈkaʊnt/	Money from selling services abroad goes into the **current account**.
exchange rate /eksˈtʃeɪndʒ reɪt/	The **exchange rate** is the price of one currency in another.

Word	Example
⚖ **purchasing power parity** /ˈpɜːtʃɪsɪŋ ˈpaʊə ˈpærɪti/	**Purchasing power parity** says the same basket of goods should cost the same everywhere.
labour /ˈleɪbə/	**Labour** is the work people do.
× **spending multiplier** /ˈspendɪŋ ˌmʌltɪˈplaɪə/	A **spending multiplier** of 4 turns £40 of spending into £160 of output. 4 £40 £160
⚖ **uncovered interest parity**	**Uncovered interest parity** says high interest rates are balanced by a falling currency.

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