Macro Module 1 Readings

Chapter 2: National Income Accounting (Module 1)

(The attached PDF file has better formatting.)

Chapter 1 is an introduction: It says what the book covers, but it has no equations or facts that are tested on final exam. The material in this chapter is repeated in more depth in later chapters, and the final exam problems refer to these later chapters. This chapter tells you what the course is about.

The mathematics in this textbook is simple, since the book is geared to college students, not to actuarial candidates. The book derives the equations at length, and it repeats the equations several times. Focus your study on which variables are dependent variables and which are independent variables.

Read Chapter 2, pages 12-15. Focus on Table 2.1 on page 13 and the calculation of chain-weighted real GDP. The final exam may give other goods and prices, and real GDP calculated as in this exhibit.

Read "Real GDP as a Measure of Welfare" on page 15. GDP does not always measure social welfare. The Communist countries of Eastern Europe and Asia destroyed their environments, but Western European countries enforced strict air and water codes. GDP alone does not measure full social welfare.

Read pages 16-26. Know the three ways to compute GDP, and know how to convert one measure (such as GDP) to another measure (such as GNP). Many final exam problems on this module come from this section.

Skip table 2.6 on page 22, showing GDP by sector. The production of goods (agriculture, mining, construction, manufacturing, etc.) is about 45% of GDP; the rest is professional services (finance, health care, etc.).

Skip the "By the Numbers" box on page 23 and table 2.7 on page 24. The state figures are not tested on the final exam.

Read "Back to Reality" on pages 25-26. The final exam tests why the consumer price index was misleading (until it was changed). Know the reasons listed in the textbook.

Review Question A.1 on page 26; know the difference between a stock and a flow. The final exam may ask which items are stocks and which are flows.