Need to Know Equations: SECTION 3: Measurement of Economic Performance:

Labor force participation rate = $\frac{\text{Labor force}}{\text{Population (age 16 \& older)}} \times 100$

Unemployment rate = $\frac{\text{Number of unemployed workers}}{\text{Labor force}} \times 100$

Natural unemployment = Frictional unemployment + Structural unemployment

Actual unemployment = Natural unemployment + Cyclical unemployment

GDP= C + I + G + IM

GDP = Consumer spending + Investment spending + Government spending+ Net Exports (exports – imports)

Real GDP = $\frac{\text{nominal GDP}}{\text{GDP deflator}} \times 100$

or

Real GDP = $\frac{\text{Nominal GDP}}{\text{CPI of same year}} \times 100$

GDP per capita = $\frac{\text{GDP}}{\text{Size of population}}$

Price Index in a given year = $\frac{\text{Cost of market basket in a given year}}{\text{Cost of market basket in base year}} \times 100$

GDP Deflator = $\frac{\text{Cost of Current Year Market Basket at Current Prices}}{\text{Cost of Current Year Market Basket at Base Year Prices}} \times 100$

Inflation Rate = $\frac{\text{Change in CPI}}{\text{Base year CPI}} \times 100$ or $\frac{\text{Price level in yr 2- Price level in yr 1}}{\text{Price level in yr 1}} \times 100$

Real Income = $\frac{\text{Nominal Income}}{\text{Price Index (in hundredths)}}$

% Change in Real Income = % Change in Nominal Income - % Change in Price Level

Real Interest Rate = Nominal Interest Rate – Inflation Rate