Measurement of Economic Performance — Unit 2A

Key Formulae

$$\text{Price Index} = \frac{\text{price of market basket in year ?}}{\text{price of same market basket in base year}} \times 100$$

$$\text{Real GDP} = \frac{\text{nominal GDP}}{\text{price index (in hundredths)}} \qquad \text{price index (in hundredths)} = \frac{\text{nominal GDP}}{\text{real GDP}}$$

$$\text{CPI} = \frac{\text{Price of ? year market basket}}{\text{Price of base year market basket}} \qquad \text{GDP Deflator} = \frac{\text{nominal GDP}}{\text{real GDP}} \times 100$$

"Rule of 70"

$$\text{Approx. number of years to double} = \frac{70}{\text{annual \% growth rate}}$$

$$\text{Unemployment Rate} = \frac{\text{unemployed}}{\text{labor force}} \times 100$$

$$\text{Rate of Inflation} = \frac{\text{(Current Year GDP-PI) – (Pervious Year GDP-PI)}}{\text{(Previous Year GDP-PI)}} \times 100$$

$$\text{Real income} = \frac{\text{nominal income}}{\text{price index (in hundredths)}}$$

Okun's Law: for every 1% by which the actual unemployment rate exceeds the natural rate, a GDP gap of about 2% occurs.