

## MACROECONOMICS AT WORK EXERCISE

### PREDICTING GDP

**REFERENCE:** ‘A Real Recovery Is Coming Into View’ (by James C. Cooper & Kathleen Madigan), *BusinessWeek*, 30 June 2003, pp. 54–6.

**CHAPTERS RELEVANT TO THIS EXERCISE:** Chapter 5, 6, 11.

### OVERVIEW

Gross Domestic Product (GDP) is a central concept in macroeconomics. The level of GDP in any period, its relationship to potential GDP, and the rate at which real GDP grows over time are major concerns of macroeconomists. An understanding of the determinants of GDP – essentially the different components of aggregate demand – allows one to understand why in a given period of time GDP may be at or close to the potential or, to a greater or lesser extent, below it. The rate of economic growth in the last year or two in the US economy (to which this article refers) has been considered lower than it potentially could have been. Economists and commentators have been divided on the question of how long this situation is likely to continue. However, a recent survey of economists (the subject of this article) has indicated that economists are nearly unanimous in the view that this rate of growth will increase in the near future. This is what is meant by the term ‘recovery’.

### QUESTIONS

1. Summarise the consensus among the economists surveyed about the future course of GDP in the US.
2. Using economic terminology, explain what is meant by the sub-heading in the article ‘The signs point up’.
3. Explain the significance of the reference to the ‘tax bill’ and why this is argued to be the ‘most important aspect’.
4. It is argued that interest rates will remain low. Explain this proposition and its significance in predictions of future GDP.
5. What is the significance of the reference to oil prices?
6. What is meant by the references to ‘possible potholes’ and ‘shocks’?