CHEAT SHEETS HERO

Economic Indicators Cheat Sheet

A quick reference guide to key economic indicators used to assess the health and performance of an economy.

Key Economic Indicators

Gross Domestic Product (GDP)

Definition: The total value of goods and services produced within a country's borders during a specific time period (usually a quarter or a year).

Importance: Primary indicator of economic size and growth. Used to compare the performance of different economies.

Types:

- Nominal GDP: GDP measured at current prices.
- Real GDP: GDP adjusted for inflation. Provides a more accurate measure of economic growth.
- GDP per capita: GDP divided by the population. Indicates the average standard of living.

Calculation Methods:

- Expenditure Approach: GDP = Consumption + Investment + Government Spending + (Exports - Imports)
- Income Approach: GDP = Sum of all income earned within the country (wages, rent, profit, etc.)

Limitations: Does not account for non-market activities (e.g., household work), environmental degradation, or income inequality.

Inflation Rate

Definition: The rate at which the general level of prices for goods and services is rising, and subsequently, purchasing power is falling.

Measurement: Typically measured using the Consumer Price Index (CPI) or the Producer Price Index (PPI).

Consumer Price Index (CPI): Measures the average change over time in the prices paid by urban consumers for a basket of consumer goods and services.

Producer Price Index (PPI): Measures the average change over time in the selling prices received by domestic producers for their output.

Types:

- Demand-Pull Inflation: Occurs when there is too much money chasing too few goods.
- Cost-Push Inflation: Occurs when the cost of production increases (e.g., rising wages or raw material costs).

Unemployment Rate

Definition: The percentage of the labor force that is unemployed but actively seeking employment.

Calculation: (Number of Unemployed / Labor Force) * 100

- Labor Force: Sum of employed and unemployed individuals.

Types:

- Frictional Unemployment: Temporary unemployment due to job transitions.
- Structural Unemployment: Unemployment due to a mismatch between the skills of workers and the requirements of available jobs.
- Cyclical Unemployment: Unemployment due to fluctuations in the business cycle.

Limitations: Doesn't include discouraged workers (those who have stopped looking for work) or underemployed workers (those working part-time but wanting full-time employment).

Fiscal and Monetary Indicators

Government Debt

Definition: The total amount of money owed by a government to its creditors.

Measurement: Usually expressed as a percentage of GDP. Provides an indication of a country's ability to repay its debt.

Impact: High levels of government debt can lead to higher interest rates, reduced government spending on essential services, and potential economic instability.

Budget Deficit/Surplus

Definition:

- Budget Deficit: Occurs when government spending exceeds government revenue.
- Budget Surplus: Occurs when government revenue exceeds government spending.

Impact: Budget deficits can lead to increased government debt, while budget surpluses can be used to reduce debt or fund public programs.

Interest Rates

Definition: The cost of borrowing money, usually expressed as an annual percentage rate.

Central Bank Influence: Central banks (e.g., the Federal Reserve in the US) use interest rates as a tool to control inflation and stimulate economic growth.

Impact:

- Lower interest rates encourage borrowing and investment, stimulating economic growth.
- Higher interest rates discourage borrowing and investment, helping to control inflation.

Types

- Federal Funds Rate
- Discount Rate
- Prime Rate

External Sector Indicators

Balance of Trade

Definition: The difference between a country's exports and imports of goods and services.

Trade Surplus: Exports exceed imports.
Trade Deficit: Imports exceed exports.

Impact: Trade surpluses can boost economic growth, while trade deficits can reduce it.

Exchange Rates

Definition: The value of one currency in terms of another.

Appreciation: A currency becomes more valuable relative to another currency.
Depreciation: A currency becomes less valuable relative to another currency.

Impact: Exchange rates affect the price of exports and imports, influencing a country's trade balance.

Foreign Direct Investment (FDI)

Definition: Investments made by a company or individual in one country into business interests located in another country.

Impact: FDI can bring new technology, jobs, and capital into a country, boosting economic growth.

Other Important Indicators

Consumer Confidence Index (CCI)

Definition: A measure of consumers' optimism or pessimism regarding the state of the economy and their personal financial situations.

Impact: High consumer confidence tends to lead to increased spending, while low consumer confidence tends to lead to decreased spending.

Purchasing Managers' Index (PMI)

Definition: A measure of the prevailing direction of economic trends in the manufacturing and service sectors.

Interpretation: A PMI above 50 indicates an expansion of the sector, while a PMI below 50 indicates a contraction.

Housing Market Indicators

Examples: New home sales, existing home sales, housing prices, and mortgage rates.

Impact: The housing market is a leading indicator of economic activity. A strong housing market tends to indicate a healthy economy, while a weak housing market tends to indicate a struggling economy.