

The Passionate Shepherd

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ECONOMIC INDICATORS & FORECASTS

I. Part 1: 12 min. Choose the best word to fill the gap.

1. Real Gross Domestic Product (GDP)

Definition: The total **(1)** of goods and services produced within the borders of the United States, **(2)** of who owns the assets or the nationality of the labor used in producing that output. (In contrast, Gross National Product (GNP) **(3)** the output of the citizens of the US and the income from assets owned by US entities, regardless of where located.) The growth of output is measured in real terms, meaning increases in output due to inflation have been removed.

Reason: The primary goal is **(4)** growth of the economy with full employment and stable prices. Real GDP is the most **(5)** measure of the performance of the U.S. economy. By monitoring trends in the overall growth rate as well as the unemployment rate and the rate of inflation, policy makers are able to assess whether the current stance of monetary policy is **(6)** with that primary goal.

- (1)** A number **B** cost **C** value **D** price
- (2)** A no matter **B** irrespective **C** regardless **D** independent
- (3)** A measures **B** accounts for **C** points at **D** indicates
- (4)** A sustainable **B** prolonged **C** sustained **D** constant
- (5)** A comprehensive **B** extensive **C** exhaustive **D** inclusive
- (6)** A compatible **B** correspondent **C** non-conflicting **D** consistent

2. Consumer Price Index (CPI)

Definition: An index designed to measure the change in price of a fixed market basket of goods and services. The market basket of goods and services is **(7)** of the purchases of a typical **(8)** consumer. The index is intended to measure pure price change only; attempts are made to remove changes in price resulting from changes in quality.

Reason: The **(9)** of change of the CPI is one of the key measures of inflation for the U.S. economy. **(10)** or deceleration of inflation may signal that a change in **(11)** policy may be **(12)**

- (7)** A typical **B** representative **C** characteristic **D** archetypal
- (8)** A urbanized **B** city **C** average **D** urban
- (9)** A level **B** rate **C** speed **D** pace
- (10)** A Rise **B** Growth **C** Acceleration **D** Increase
- (11)** A financial **B** monetary **C** economic **D** fiscal
- (12)** A appropriate **B** appropriate **C** justifiable **D** proper

II. Part II: 10 min. Fill in the gaps with a word on your own.

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3. Nonfarm Payroll Employment

Definition: An estimate of the number of payroll jobs at all nonfarm business establishments and government agencies. Information is also provided (13) the average number of hours worked (14) week and average hourly and weekly earnings.

Reason: Growth of employment and hours worked provide important information about the current and likely future pace (15) overall economic growth. Trends (16) average hourly earnings provide information about supply and demand conditions in labor markets, (17) may provide signals about the overall level of resource utilization in the economy.

4. Housing Starts

Definition: An estimate of the number of housing units on which construction was started.

Reason: Housing is perhaps the (18) interest-rate sensitive sector of the economy. It often experiences large swings in activity (19) response to changes in the level of long-term interest rates such as those on mortgages. (20) residential investment represents just four percent of the level of GDP, due to its volatility it frequently represents a much higher proportion of changes in GDP (21) relatively short periods of time. Policy makers monitor the housing sector very carefully (22) clues about the near-term performance of the economy and for the effects of changes in financial conditions

5. Industrial Production/Capacity Utilization

Definition: An index designed to measure changes in the level of output in the industrial sector of the economy. The index is grouped (23) both products (consumer goods, business equipment, intermediate goods, and materials) and industry (manufacturing, mining, and utilities).

Reason: While the industrial sector of the economy represents only about 20 percent of GDP, because changes in GDP (24) heavily concentrated in the industrial sector changes in this index provide useful information on the current growth of GDP. The level of capacity utilization in the industrial sector provides information on the overall level of resource utilization in the economy which may in turn provide information on the likely future course of inflation

Part III: 10 min. Find a derivative.

6. Business Sales

Definition: Total current-dollar sales and (25) for the manufacturing, (26) , and retail sectors of the economy.

Reason: This release is the (27) source of data. The rate of accumulation plays a key role in determining the current pace of economic growth and often provides (28) clues about the future pace of growth as well.

(25) INVENT

(26) SALE

(27) PRIME

(28) USE

7. Retail Sales

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Definition: An estimate of the total sales of goods by all retail **(29)** in the U.S. (Sales of services are not included.) Data are presented in nominal, or current, dollars, meaning they are not adjusted for inflation. However, the data are adjusted for seasonal, holiday, and trading-day differences between the months of the year.

Reason: Personal **(30)** expenditures (PCE) represent roughly two-thirds of GDP. By monitoring retail sales, policy **(31)** are able to make an assessment of the likely growth of PCE for the current and future quarters

(29) ESTABLISH

(30) CONSUME

(31) MAKE

8. Advance Durable Goods Shipments, New Orders and Unfilled Orders

Definition: Data on shipments, new orders, and unfilled orders, expressed in current dollars, for things such as primary metals, fabricated metals, electric generating equipment, nonelectrical **(32)**, information processing equipment, and transportation equipment, including civilian and military **(33)** and ships, light-, medium-, and heavy-duty trucks, and automobiles.

Reason: The data in this report provide information on the strength of demand, from both domestic and foreign sources, for U.S. manufactured **(34)** goods. Rising orders, shipments, and unfilled orders suggest demand is strengthening, which will likely result in increasing production and employment, while falling orders, shipments, and unfilled orders suggest the opposite. Data in this release also provides information on the current and likely future pace of business investment in new equipment

(32) MACHINE

(33) CRAFT

(34) ENDURE

9. Light-Weight Vehicle Sales

Definition: Total unit sales and leases of domestic and imported new automobiles and light-weight trucks (up to 10,000 pounds gross vehicle weight). Includes sales and leases to both consumers and businesses.

Reason: While a **(35)** small component of the overall economy, changes in light-weight vehicle sector often account for a large part of quarter-to-quarter changes in the rate of growth of GDP

(35) RELATE

10. Yield on 10-year Treasury Bond

Definition: The current market interest rate or yield on U.S. Treasury bonds maturing 10 years in the future.

Reason: Movements in long-term interest rates such as the 10-year Treasury rate provide information about likely future changes in the level of **(36)** in the interest-sensitive sectors of the economy. For example, mortgage interest rates often move in tandem with the 10-year Treasury rate, and changes in mortgage rates often precede changes in the level of activity in housing markets

(36)ACT

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IV. Part 4: 6 min. Which section does each question refer to?

- (37) Cost to some, income to others.**
- (38) S&P 500 Stock Index**
- (39) Opportunity cost**
- (40) Money supply**
- (41) Efficient allocations**
- (42) Business & consumer confidence**

A

Definition: One of several indices designed to measure changes in price of a broad array of stocks.
Reason: The stock market is one measure of the current value of the nation's stock of capital and is often viewed as a barometer of business and consumer confidence regarding the future. A high and/or rising stock market may signal robust growth of business investment and consumer spending in the near future while a low and/or falling stock market may signal sluggish spending. For this reason, the S&P 500 is one component of the Index of Leading Indicators

B

Definition: One measure of the nation's supply of money, defined as M1 (currency in circulation, demand deposits, travelers' checks, and other checkable deposits) plus noninstitutional money market funds and small time and savings deposits.
Reason: While the strength of the relationship has weakened over time, many people believe there is a link between growth of the supply of money and growth of nominal GDP.

C

Interest is income to people willing to give up the temporary use of their money. When you put money into a bank account, or when you buy a U.S. Savings Bond, for example, you receive interest income. You pay interest, for example, if you don't pay your entire credit card bill at the end of the month, if you take out a mortgage loan to buy a house, or if you own a business that borrows in order to invest in machinery. Interest is a signal that directs funds to where they can earn the highest rates, or to where loans can do the most for the economy.

D

Interest is a measure of the cost of holding money. The rate of interest that you could earn by lending your money is the cost to you of holding your money in a way (such as in cash) that doesn't earn any interest. By holding money, you give up the interest that you could have earned, so the interest rate measures the cost of holding money.