Key Economic Concepts for the Euro Challenge

Student Orientations
2019 Euro Challenge

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Key economic concepts for the Euro Challenge

EUROPEAN UNION
DELEGATION TO THE USA

Describe the current season of your team

Imagine you had to describe the current season of your favorite football team

You can summarize their season by focusing on different *indicators*

- **Games won, lost, tied**
- **Total yards, rushing, passing**
- **Touchdowns, sacks, field goals**

These are all indicators

They help to explain the teams' season

Will your team go to the Superbowl?

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GDP growth: a key economic indicator

Gross Domestic Product measures everything produced by an economy (both goods and services)

- *Gross Domestic Product* (GDP) is the total value of all the goods (e.g. cars, iPods) and services (e.g. haircuts, insurance policies) produced by an economy

- *GDP growth* tells you by how much GDP has increased compared to the last year (or last quarter)

- GDP growth is expressed as a *percentage*

- When the economy is growing, GDP growth is a *positive number*

- In a recession, GDP growth is *negative* (GDP shrinks)

Unemployment

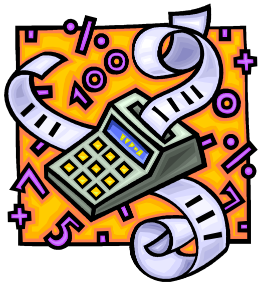
- The basic definition of unemployment is the number of people that are actively looking for work and have not found it in a certain period.

- The unemployment rate is the share of the active population (unemployed + employed) that is looking for work but not employed.

- Unemployment normally rises in times of slow or declining GDP growth, and tends to fall in times of stronger GDP growth.

- As economic activity increases, firms hire more workers to produce the goods and services people are consuming.

Inflation



HINT: For all you need to know about inflation/deflation and the ECB, go to http://vimeo.com/12324309

• Inflation is the general increase in the level of certain measured prices over a certain period. It is expressed as a percentage change.

• A little inflation is fine, even desirable, but too much of it can be damaging, both to people's livelihoods and to the economy as a whole.

• High inflation usually occurs when an economy is over-heating (growing too quickly). When growth is too weak, there may be a risk of deflation (falling prices) – which sounds great but can be very bad!

High debt and deficits

- The *deficit* is the difference between the amount of money a government takes in (revenue) and what it spends (outlays) in a given year. If that number is positive, there is a *surplus.*

The *debt* is the total amount of money the government owes. It is usually expressed as a percentage of GDP.

A debt level that is too high can lead to higher borrowing costs and slower economic growth. And slower GDP growth makes it more difficult to reduce deficits and debt!

What is monetary policy?

The euro area's monetary policy is run by the ECB

HINT: For all you need to know about the ECB, the Euro, the Monetary Policy go to: https://www.ecb.europa.eu/home/html/index.en.html

- Monetary policy is the process by which a central bank controls the supply of money for the purpose of steering economic growth and limiting inflation.
- By setting interest rates, central banks can influence borrowing and lending decisions by households and firms. Lower interest rates generally spur economic activity, while higher interest rates slow inflation down.
- Monetary policy can be described as *neutral*, *expansionary* (“loose/easy”), or *contractionary* (“tight”). The ECB targets and inflation rate of close to, but below, 2%, and adjusts monetary policy to meet that target.

Good luck in the Euro Challenge 2019!