

# Key Economic Concepts for the Euro Challenge

Student Orientations,  
2013 Euro Challenge

[www.euro-challenge.org](http://www.euro-challenge.org)



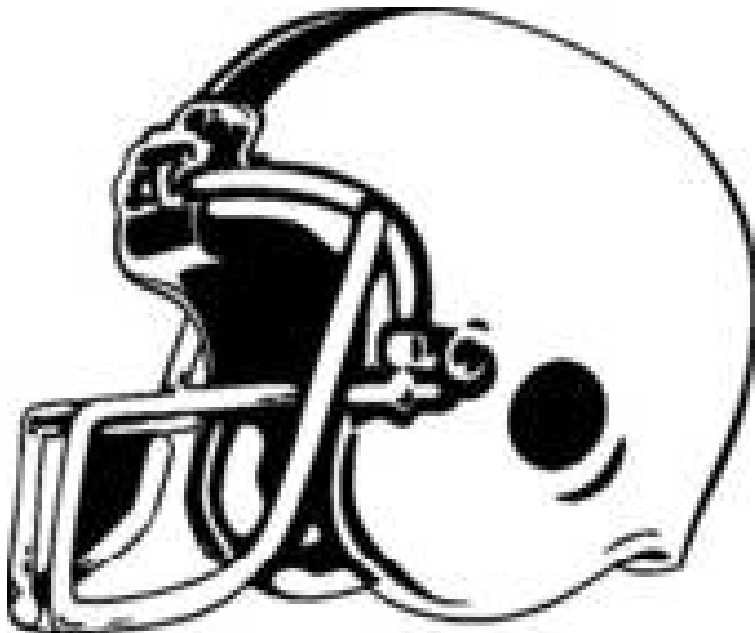


# Key economic concepts for the Euro Challenge

## 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? \_\_\_\_\_

## GDP growth: a key economic indicator



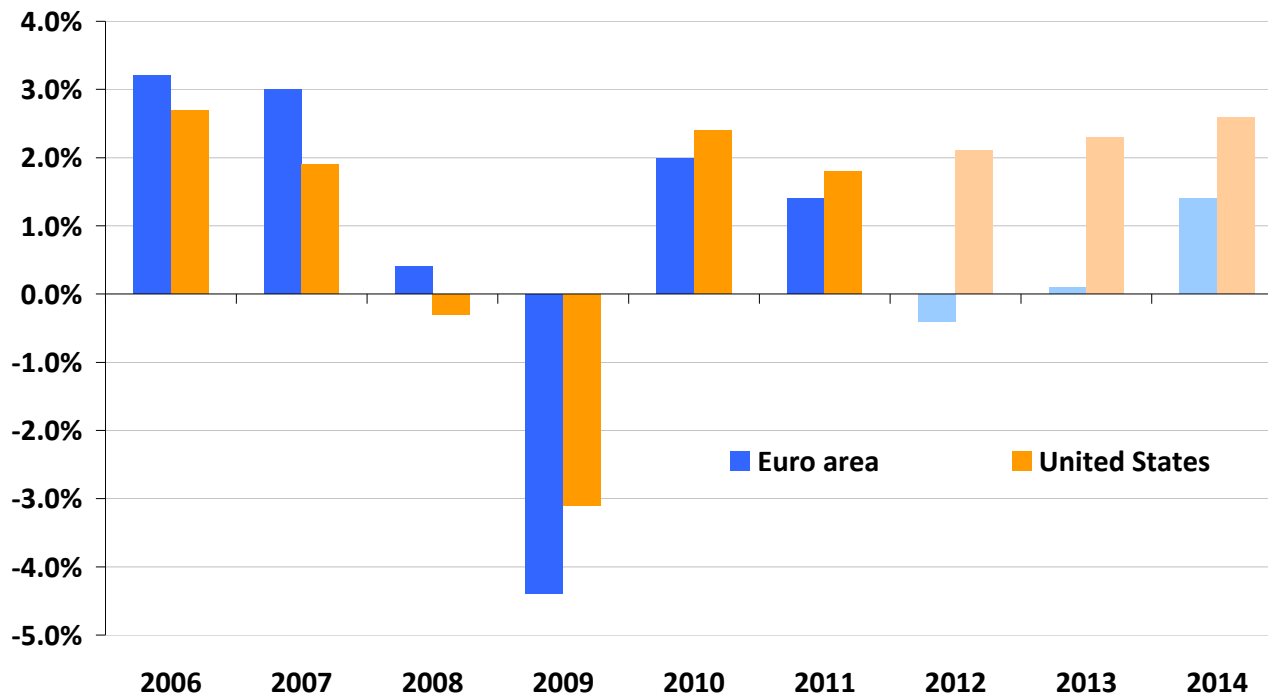
Gross Domestic Product measures everything produced by an economy (both goods and services)

- *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)



## Euro area GDP growth is slowing sharply

Euro Area & US GDP with Forecasts



Source: European Economic Forecast - Autumn 2012

*Hint: For explanations and updates, see “Current Economic Situation in the Euro Area” on the Resources page*

The euro area economy as a whole is *forecast* to contract (have negative growth) slightly this year and gradually move to positive growth next year.

Countries affected directly by the debt crisis have been in recession (negative GDP growth) already for several years.

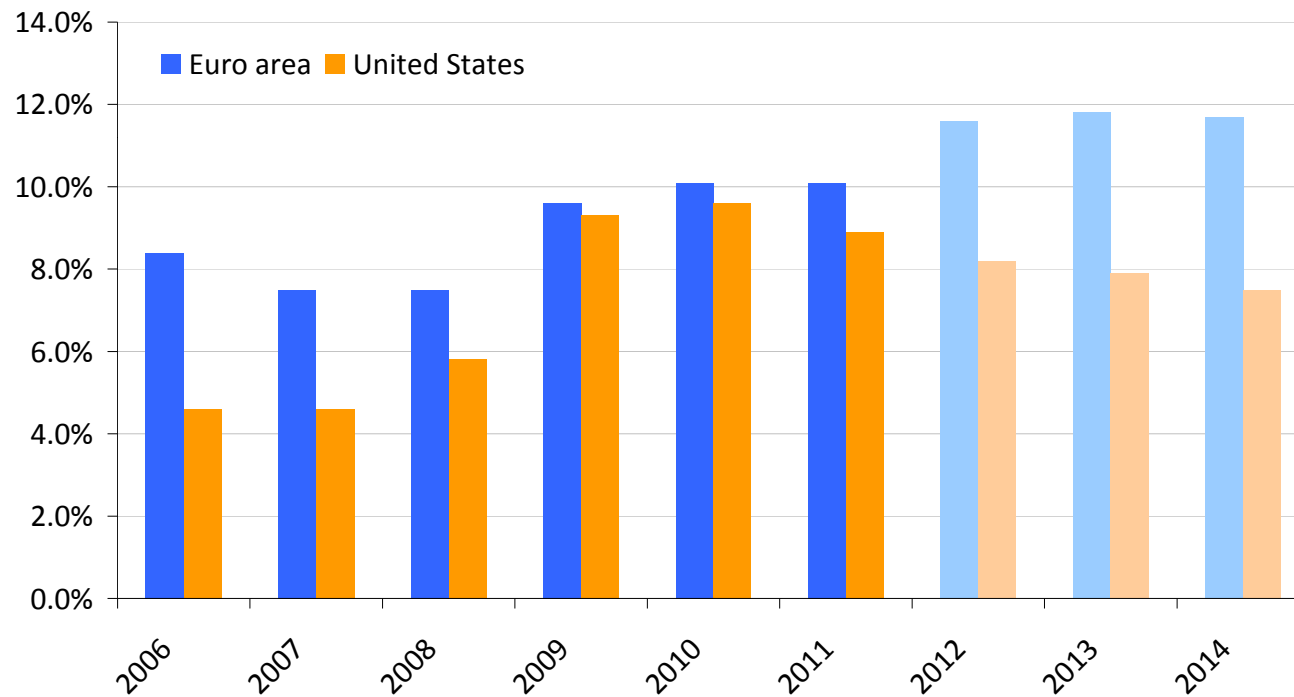


- The basic definition of unemployment is the number of people that are actively looking for work and have not found it in a certain period.
- The unemployment rate is the share of the working-age population that is looking for work but not employed.
- Unemployment normally rises in times of slow or 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.



# Unemployment: on the rise again

Euro Area & US Unemployment with Forecasts



The unemployment rate in the euro area was falling prior to the 2008-09 crisis, but has risen since then and now stands at 11.6%.

There are huge differences in unemployment rates among euro area countries (4.4% in Austria, 25.8% in Spain).

Source: European Economic Forecast - Autumn 2012



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

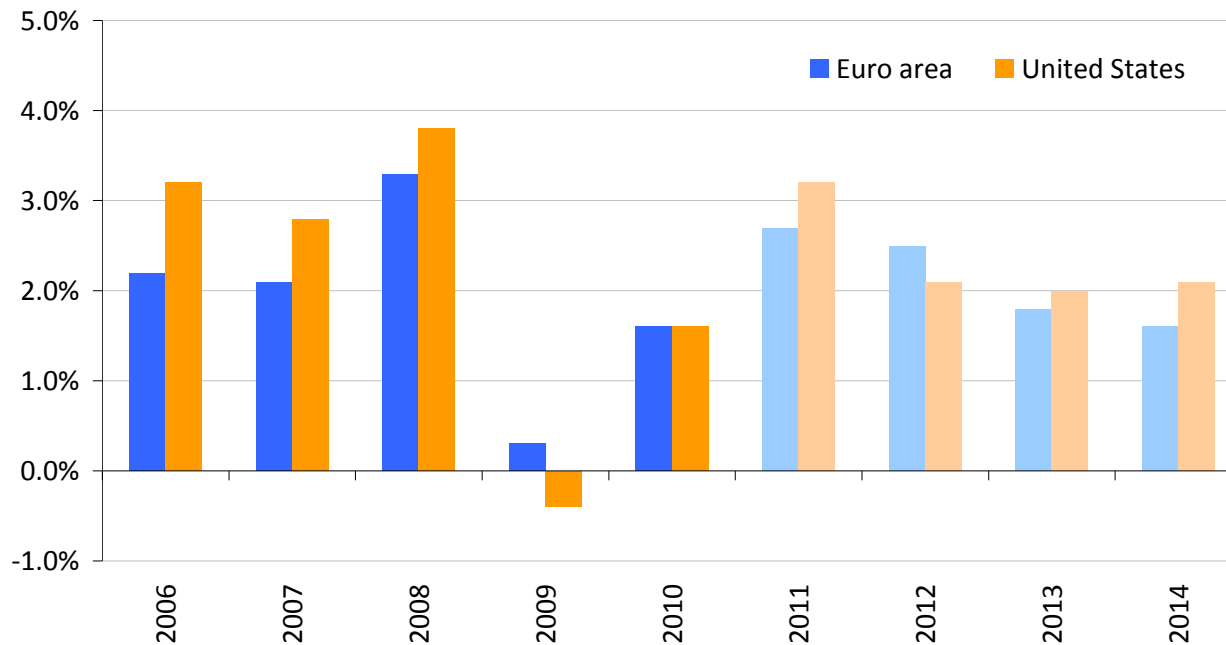
- Inflation is the general increase in the level of certain measured prices over a certain period. It is expressed as a percentage change.
- A little inflation is fine, even desirable, but too much of it can be damaging, both to people's livelihoods and to the economy as a whole.
- High inflation usually 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!





# Inflation: elevated but coming down

Euro Area & US Inflation with Forecasts



Inflation has edged up slightly due to increases in energy prices globally.

But euro area inflation is expected to come down (to below 2%, within the ECB's "comfort zone") due to slow growth and high unemployment.

Source: European Economic Forecast - Autumn 2012

## 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 has a  
single monetary  
policy run by the ECB**



Mario Draghi,  
ECB President

- 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”), or *contractionary* (“tight”).
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# Good luck in the Euro Challenge 2013!



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