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Week #1

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Week One: An Overview of Modern Macroeconomics

This week illustrates just how important macroeconomics can be in your personal and professional life. The lesson this week also provides a very informative historical overview of the development of modern macroeconomics. Beginning with Classical economics, we see how, over time, new theories like Keynesianism, Monetarism, Supply-side economics, and New Classical economics have emerged to try and cope with problems that the previous theories could not solve.

You should find such a history very useful in helping you to remember some of the more difficult theoretical material that you will encounter this course. Ultimately, it is only after we come to understand how macroeconomics has evolved--and how it keeps evolving over time--that we will come to realize just how important and relevant this subject is to everything we do.

Key Questions for Week One: An Overview of Modern Macroeconomics

1. At a personal level, what kind of questions can macroeconomics help you answer?
2. At a business and professional level, what kind of questions can macroeconomics help you answer?
3. Why is it important to study macroeconomics from an historical perspective?
4. How is microeconomics distinguished from macroeconomics?
5. How is inflation defined, and how is it typically measured? Why has inflation often been described as the cruelest tax? How is the unemployment rate measured?
6. Describe the three kinds of unemployment.
7. How is the rate of economic growth typically measured? Describe the two ways of measuring the gross domestic product.
8. What is the difference between actual and potential Gross Domestic Product?
9. What is the difference between nominal GDP and real GDP? Describe the phases of the business cycle.
10. What is fiscal policy? What is monetary policy?
11. Illustrate equilibrium in the aggregate supply-aggregate demand model.
12. What is the Classical view of unemployment?
13. John Maynard Keynes flatly rejected the Classical notion of a self-correcting economy. Why?
14. Use the aggregate supply-aggregate demand model to illustrate demand-pull inflation.
15. Use the aggregate supply-aggregate demand model to illustrate cost-push inflation.

16. What was the Keynesian dilemma that arose because of stagflation?
17. Milton Friedman's Monetarist School argued that the problems of both inflation and recession may be traced to one thing. What is it?
18. In the 1980 presidential election, Ronald Reagan ran on a Supply-side platform that promised to do what?
19. New Classical economics is based on what controversial theory? What is the central policy implication of this, theory?

Week #1 Quiz

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