Notes — Week 11

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Period 3

1. National Debt

    - Debt — An accumulation of deficits
    - Deficit — The amount gained or owed in a certain amount of time (usually an annual number) that represents the difference in income and spending
        - Trade Deficit — When imports are greater than exports
        - Budget Deficit — When spending exceeds income
    - National Debt — Too much spending, not enough income
    - Entitlement — Something received from the government when one qualifies for it (*i.e.* social security, food stamps, etc)
    - "Crowding Out" — Government spending increases, which increases AD. This, in turn, increases the demand for loanable funds, which increases interest rate. The increase in interest rates decreases AD, creating a cycle of "crowding out" (investment keeps decreasing, government spending keeps increasing)
    - Interest expenses crowd out other spending
    - Composition of spending: investment v. consumption
    - When investors become less confident, they are less willing to invest

2. Types/Causes of Inflation

    - Demand-Pull Inflation — Demand, in tandem with limited supply, pulls prices higher
        - Excessive monetary growth
    - Cost-Push Inflation — Results from shifts in the aggregate supply curve, usually supply shocks

3. The Quantity Theory of Money

- A theory that emphasizes the positive relationship between the price level and the money supply
- The equation of exchange: $M \cdot V = P \cdot Q$, where M is the quantity of money, V is the velocity, P is the price level, and Q is the real GDP
  - Velocity is the measure of the rate of exchange of a dollar, and can be measured by: nominal GDP / money supply