# Notes — Week 11

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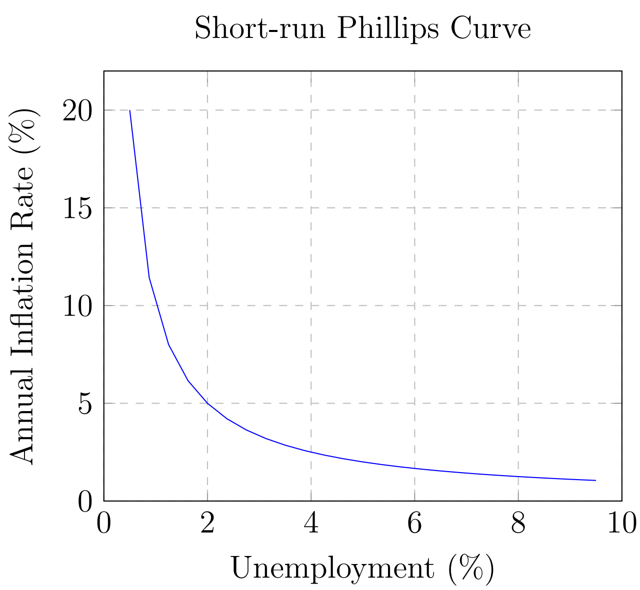
Period 3

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

4. The Phillips Curve:




- As output increases, unemployment decreases because more workers are needed
- An AD shift results in movement along the SRPC
- Stagflation or an aggregate supply shock will shift the SRPC to the right/up
- Decreases in inflation and unemployment (an increase in AS) will shift the SRPC to the left/down
- SRAS and SRPC shift in opposite directions
- Expected inflation will shift the SRPC to the right/up
- Economists believe the relationship between expected inflation and changes in actual inflation is one-to-one
- In the long run Phillips curve, there is no trade-off. The long run Phillips curve is vertical at the unemployment rate consistent with full output
  - Factors that influence unemployment in the long run are NOT affected by money supply
    - Market power of unions
    - Process of job search

* Unemployment benefits
* Minimum wage laws

- The only sustainable combination of inflation and unemployment on the SRPC is where it intersects the LRPC because that is the only unemployment rate consistent with potential GDP ("Home Base")
- This is analogous to "long run equilibrium" in our ADAS model
- The LRPC and the SRPC intersect at the expected rate of inflation