<u>Unit 3 Home Learning</u>:

Part 1: Find the following vocabulary terms from Chapters 8-9 of the 5 Steps to a 5.

Set 1 Quiz:
B Day: Wednesday, 9/24
A Day: Thursday, 9/25

1) Consumption Function
2) Savings Function
3) Autonomous Consumption
4) Autonomous Savings
5) Dissavings
6) Investment
7) Investment Demand
8) Autonomous Investment
9) Marginal Propensity to Consume
10) Marginal Propensity to Save
11) Determinants of Consumption and Savings
12) Spending Multiplier (Include common MPCs and their multipliers)
13) Tax Multiplier (Included common MPCs and their tax multipliers)
14) Balanced Budget Multiplier

Set 2 Quiz:
B Day: Tuesday, 9/30
A Day: Wednesday, 10/1

15) Real Rate of Return
16) Real rate of interest
17) Loanable funds
18) Demand and supply for loanable funds (Include fully labelled graph)
19) Aggregate Demand and Supply (Include fully labelled AD/AS graph)
20) Short-Run and Long Run Aggregate Supply
21) Components of AD (list all)
22) Macroeconomic Long Run Equilibrium
23) Recessionary Gap (Include graph)
24) Inflationary Gap (Include Graph)
25) Demand-Pull Inflation
26) Supply-Side Boom
27) Stagflation
28) Supply Shock
29) The Phillips Curve (With graph and explain short and long run Phillips curve)

Part 2: Then answer the following Free Response Questions to the best of your ability.

1.

(a) Draw a correctly labeled graph showing the short-run and long-run Phillips curves for Country X.

(b) Identify how each of the following affects inflation, unemployment, and the short-run Phillips curve.

(i) An increase in government spending

(ii) A drop in inflationary expectations

(c) Identify the effect of increased unemployment-insurance benefits on the long-run Phillips curve.

2.

Assume that the table below shows the unemployment and inflation data in Country X as a result of a shift in aggregate demand.

Period	Unemployment Rate	Inflation Rate
Last year	2%	8%
This year	5%	4%

(a) Draw a correctly labeled graph of a short-run Phillips curve for Country X, showing the actual unemployment and inflation rates for both years. Label the Phillips curve as SRPC.

(b) Now assume that the short-run aggregate supply curve has shifted to the left.

(i) Identify one factor that could cause the aggregate supply curve to shift to the left.

(ii) On the graph, show how this shift would affect the short-run Phillips curve.

(c) Assume that the natural rate of unemployment in Country X is 5 percent. Draw a correctly labeled graph of the long-run Phillips curve and label it as LRPC.

(d) What is the relationship between the unemployment rate and the inflation rate in the long run?

3.

How does each of the following changes affect the real gross domestic product and price level of an open economy in the short run? Explain each.

(a) An increase in the price of crude oil, an important natural resource

(b) A technological change that increases the productivity of labor

(c) An increase in spending by consumers

4.

Inflation and expected inflation are important determinants of economic activity.

(a) Draw a correctly labeled graph of a short-run Phillips curve.

(b) Using your graph in part (a), show the effect of an increase in the expected rate of inflation.

(c) What is the effect of the increase in the expected rate of inflation on the long-run Phillips curve?

(d) Given the increase in the expected rate of inflation from part (b),

(i) will the nominal interest rate on new loans increase, decrease, or remain unchanged?

(ii) will the real interest rate on new loans increase, decrease, or remain unchanged?

(e) Assume that the nominal interest rate is 8 percent. Borrowers and lenders expect the rate of inflation to be 3 percent, and the growth rate of real gross domestic product is 4 percent. Calculate the real interest rate.