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| Chapter 9 | -Recession occurs when total output, income, and employment decline for at least six months. |
| -Natural rate of employment is where there is no cyclical unemployment. | -Okuns law indicates that for every 1 percentage point by which the actual unemployment rate exceeds the natural rate, a negative GDP of about 2 percent occurs. |
| - In an economy with an 8% natural rate of unemploymentPicture actual GDP was $13Picture500 and the unemployment rate was 6%. Assume that Okun's Law holds true. What was potential GDP? 14063 | -When a rise in the price of oil causes an increase in inflation, an economy is experiencing demand-pull inflation. False |
| -A person can mitigate, if not eliminate, the redistributive effect of inflation so long as the inflation is anticipated. True | -Even low levels of inflation can be harmful for all of the following reasons except prices of individual items will not change if there is zero inflation. |
| -A rise I the price of gold is more likely to cause cost-push inflation than the ride in the price of oil.  - Cost- Push inflation occurs when factors such as a rapid increases in the prices of imported raw materials drive up per-unit productions costs at each level of output; higher cost push the price level upward.  -Demand- Pull inflation occurs when total spending exceeds the economy’s ability to provide goods and services at the existing rice level; total spending pulls the price level upward.  -Core inflation is the underlying inflation rate after the volatile food and energy prices have been removed. | -The typical business cycle goes through four phases: peak (here the economy is near or at full employment and the level of real output is at or very close to the economy’s, capacity. The price level is likely to rise during this phase, recession (is a period of decline in total output, in come and employment. This downturn is marked by the widespread contraction of business activity in many sectors of the economy, trough (output and employment are “bottom out” at their lowest levels) expansion ( a period in which real GDP, income and employment rise, reaches possibly full employment, prices of nearly all goods and services ride, inflation will occur). |
| -Fluctuations in output and employment are caused by economic shocks combining with sticky prices. | -Sources of shocks that cause recessions include irregular innovation, productivity changes, monetary factors, political events, and financial instability.- |
| -During a recession, industries that produce capital goods and consumer durables normally suffer greater output and employment declines than do service and nondurable consumer goods industries. –--Unemployment is of three general types, frictional unemployment (in between jobs), structural unemployment (resulting from a mismatch between demand in the labour market and the skills and locations of the workers seeking employment), and cyclical unemployment (recession).  -A positive GDP gap occurs when actual GPD exceeds potential GDP; a negative GDP actual GDP falls short of potential GDP. | - The natural unemployment rate (frictional plus structural) is presently 4 to 5 in the United States.  - For the part several years the U.S inflation rate has been within the general range of the rates experiences by some nations. -Society loses real GDP when cyclical unemployment occurs.  - Lower skilled workers, teenagers, African Americans and Hispanics, and less educated worked bear a a disproportionate burden of unemployment.  -Inflation in a rising general level of prices and is measured as a percentage change in a price index such as a the CPI; deflation is a decline in the general level of prices. |

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| Chapter 10 - The higher the marginal propensity to consume (the lower the marginal propensity to save) the larger the multiplier= 1/(1-MPS) or MPS. | -Both Consumption spending and saving rise when disposable income increases; both fall when disposable income decreases. |
| -The average propensity to consumer (APC) is the fraction of any specific level of disposable income that is spend on consumer goods; the average propensity to save (Aps) is the fraction of any specific level of disposable income that is saved. The APC falls and the APS rises as disposable income increases. | - The marginal propensity to consume (MPC) is the fraction of a change in the disposable income that is consumed and it is the slope of the consumption schedule; the marginal propensity to save (MPS) is the fraction of a change in disposable income that is saved and it is the slope of the saving schedule. |
| - Changes in consumer wealth, consumer expectations, interest rates, and household debt, can taxes can shift the consumption and saving schedules (as they relate to GDP). | - A specific investment will be undertaken if the expected rate of return ® equals or exceeds the real interest rate (i). |
| - The investment demand curve shows the total monetary amounts that will be invested by an economy at various possible real interest rates. -Which of the following factors will cause the investment demand curve to shift to the right? Business executives become more optimistic about future sales and profits. | -The investment demand curve shifts when changes occurs in (a) the costs of acquiring, operating and maintaining capital goods, (b) business taxes (c) technology, (d) the stock of capital goods on hand, and (e ) business expectations. |
| -The multiplier effect reveals that an initial change in spending can =cause a larger change in domestic income and output. The multiplier is the factor by which the initial change is magnified: multiplier = change in real GDP/ initial change in spending. | - The higher the marginal propensity to consume (the lower the marginal propensity to save) the larger the multiplier= 1/(1-MPS) or MPS. -The economy’s investment demand curve slopes down to illustrate the fact that as the real interest rate increases; business firms will reduce their expenditures on new plant, equipment, machinery, etc. |

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| Chapter 11 | - In a private closed economy, equilibrium GDP occurs where aggregate expenditures equal rate domestic output ( C+ Ig = GDP) |
| - At equilibrium GDP, saving equals planned investment (S=Ig) and unplanned changes in inventories are zero. | - Actual investment consists of planes investment plus unplanned changes in inventories ( + or -) and is always equal to saving in a private closed economy. |
| - Through the multiplier effect an initial change in investment spending can cause a magnified change in domestic output and income. | -Positive net exports increase aggregate expenditures relative to the closed economy and , other thing equal, increase equilibrium GDP. |
| - Negative net exports decrease aggregate expenditures relative to the closed economy and, other things equal, reduce equilibrium GSP. | -In the open economy changes in (a) prosperity abroad, (b) tariffs, ad (c) exchange rates can affect U.S net exports and therefore U.S aggregate expenditures and equilibrium GDP. |
| - Tariffs and deliberate current depreciations are unlikely to increase et exports, because other nations will retaliate. | -Recessionary expenditure hap is the amount by which aggregate expenditures at the full employment GDP fall short. |
| - Inflationary Expenditure gap describes the amount by which economy’s aggregate expenditure at the full employment GDP exceed those just necessary to achieve the full employment level of GDP. | -Government purchases shift the aggregate expenditures schedule upward and raise equilibrium GDP. |
| -Taxes reduce disposable income, lower consumption spending and saving, shift the aggregate expenditures schedule downward, and reduce the equilibrium GDP  -Suppose that an economy is experiencing a recessionary expenditure gap. Which of the following statements is NOT true about this situation? The GDP gap may be closed, and full employment achieved, by a reduction in government purchases or an increase in government-imposed taxes. | - A recessionary expenditure gap is the amount by which am economy’s aggregate expenditures schedule must shift upward to achieve the full employment GDP; an inflationary expenditure gap is the amount by which the economy’s aggregate expenditure gap is the by which the economy’s aggregate expenditure schedule must shift downward to achieve full employment GDP and eliminate demand pull inflation. |
| -Suppose that firms in a private closed economy produced an output level (GDP) that is greater than the sum of planned consumption and investment expenditures. All of the following will occur except households’ saving will equal the firms’ planned investment. | -Which of the following will cause an upward shift of the aggregate expenditures schedule? An increase in the expected rates of return on investment |
| -Consider an open economy with a public sector, where prices are assumed to be stuck at a fixed level. Which of the following changes will definitely increase aggregate expenditures and thus expand real GDP? Rising incomes abroad (among U.S. trading partners) and a depreciation of the U.S. dollar | The aggregate expenditures models views the total amount of spending in the economy as the primary factor determining the level of real GDP that the economy will produce. The model assumes that the price level is fixed. Kaynes made this assumption to reflect the general circumstances of the Great Depressions, in which declines in output and employment rather than declines in prices, were the dominant adjustments made by firms when they faced huge declines in their sales. |

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| - Full employment high economic growth, and price stability are | -Aggregate demand reflects an inverse relationship between the price level and the amount of real output demanded. |
| - Full employment high economic growth, and price stability are compatible, with one another if productivity driven increase in aggregate supply are sufficient tobalance growing aggregate demand. | -Changes in one or more of the determinants of aggregated demanded alter the amounts of real GDP demanded at each price level; they shift the aggregate demand curve. The multiplier effect magnifies initial changes in spending into larger changes in aggregate demand. |
| -An increase in aggregate demand is show as a rightward shift of the aggregate demand curve; a decrease as a leftward shift of the curve. | - Aggregate supply is a schedule or curve showing the relationship between a nation’s price level and the amount of real domestic output that firms in the economy produce. |
| - The immediate short run aggregate supply curve is horizontal; given fixed input and output prices, producers will supply whatever quantity or real output is demanded at the current price level. | - The short run aggregate supply curve (or simply the aggregate supply curve) is upsloping: given fixed resource prices, higher output prices rise firm profits and encourages them to increase their output levels. |
| -By altering per-unit production costs independent changes in the level of output, changes in one or more of the determinants of aggregate supply shift the aggregate supply curve. | -An increase in short run aggregate supply is shown as a rightward shift of the aggregate supply curve; a decrease is shown as a leftward shift of the curve. |
| -The equilibrium price level and amount of real output are determined at the intersection of the aggravated demand curve and the aggregate supply curve. | -Increases in aggregate demand beyond the full employment level of real GDP cause demand pull inflation. |
| - Decreases in aggregate demand cause recessions and cyclical unemployment, partly because the price level and wages tend to be inflexible in a downward direction. | -Decreases in aggregate supply cause cost push inflation. -Changes in the price level create real-balances, interest- rate, and foreign purchases effects that explain the downward slope of the aggregate demand curve. |

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