Macroeconomics
50 Essential Questions

Unit 1: Basic Economic Concepts

1. Explain how to show a recession, full employment, and growth on the production possibilities curve.
2. Explain the difference between an output comparative advantage question and an input question.
3. Explain how to determine if a country has a comparative advantage.
4. Explain how to determine the terms of trade when two countries specialize.
5. Explain why either price or quantity are indeterminate when both demand and supply change.

Unit 2: Economic Indicators and the Business Cycle

6. Explain why transfer payments are not included in Real GDP.
7. Explain why the official unemployment rate might not reflect true joblessness in an economy.
8. Explain why full employment (or the natural rate of unemployment) is not 0% unemployment.
9. Explain why an increase in unexpected inflation helps borrowers.
10. Explain the difference between the annual inflation rate and the consumer price index (CPI).
11. Explain why a recessionary gap, or negative output gap, is not the same as a recession.

Unit 3: National Income and Price Determination

12. Explain why the aggregate demand curve is downward sloping.
13. Explain why the aggregate supply curve is upward sloping.
14. Explain why the long-run aggregate supply curve is vertical.
15. Explain how to show a negative supply shock using the aggregate demand and supply model.
16. Explain what happens in the long-run when there is a negative output gap and no policy action.
17. Explain what happens in the long-run when there is a positive output gap and no policy action.

18. Explain how government spending will affect the overall economy in the short-run.
19. Explain how a tax cut will affect the overall economy in the short-run.
20. Explain why an increase in the MPS causes the spending multiplier to decrease.
21. Explain why a tax cut by a certain amount has less of an impact on the economy than an increase in government spending by the same amount.
22. Explain why progresive income taxes are an example of an automatic stabilizer.

Unit 4: Financial Sector

23. Explain why bond prices and interest rates are inversely related.
24. Explain why an increase in unexpected inflation causes a decrease in the real interest rate.
25. Explain the difference between the money supply and the monetary base.
26. Explain how money serves as a medium of exchange, a store of value, and a unit of account.
27. Explain why a decrease in the reserve requirement causes the money multiplier to increase.
28. Explain why the demand for money is downward sloping.
29. Explain why interest rates and investment are inversely related.
30. Explain how open market operations can increase or decrease the money supply.
31. Explain why a cash deposit of a certain amount creates less money than a purchase of bonds by the central bank of the same amount.
32. Explain how an increase in the money supply affects the overall economy.
33. Explain how an increase in deficit spending will cause the real interest rate to increase.
34. Explain why an increase in the savings rate will cause the real interest rate to decrease.

Unit 5: Long-Run Consequences of Stabilization Policies

35. Explain how monetary policy can be used to fight inflation caused by expansionary fiscal policy.

36. Explain how to show a recessionary gap, inflationary gap, and full employment on the Phillips curve.

37. Explain why the long-run Phillips curve is vertical.

38. Explain how to show a negative supply shock using the Phillips curve.

39. Explain why an increase in the money supply will increase nominal GDP, but not real GDP.

40. Explain the difference between a budget deficit and the national debt.

41. Explain why deficit spending can result in crowding out.

42. Explain why crowding out results in less economic growth in the long-run.

43. Explain how to show economic growth using the aggregate demand and supply model.

44. Explain why an increase in physical capital or human capital can result in economic growth.

45. Explain how government spending can result in economic growth.

Unit 6: Open Economy- International Trade and Finance

46. Explain the difference between the current account and the capital and financial account.

47. Explain why two currencies can't appreciate relative to each other at the same time.

48. Explain why appreciation of the currency results in a decrease in net exports for the country.

49. Explain why inflation results in both a decrease in demand and an increase in supply for a country's currency.

50. Explain why an increase in real interest rate will increase financial capital inflow.