



Macroeconomics Unit 5 Study Guide

Consequences of Stabilization Policies

Topic 5.1- Fiscal and Monetary Policy in the Short Run ▶

1. Use the chart to summarize how fiscal policy, monetary policy, and no policy can close negative and positive output gaps. Identify if the policy shifts AD or SRAS.

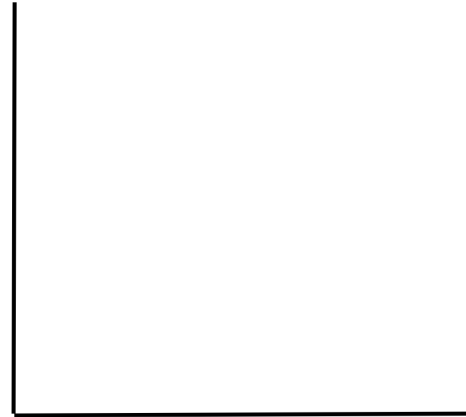
Policy	Negative Output Gap	Positive Output Gap
Fiscal Policy		
Monetary Policy		
No Policy		

2. What action could the central bank take to limit inflation caused by expansionary fiscal policy? Explain.

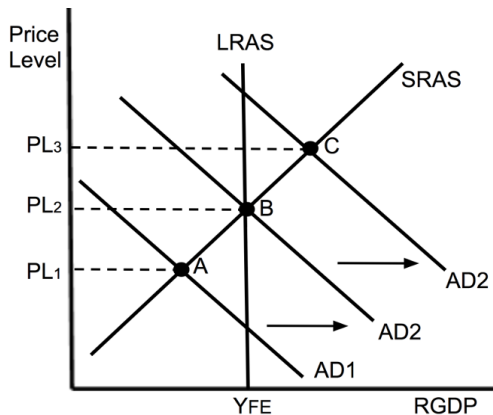
Topic 5.2- The Phillips Curve ▶

1. Draw the short-run and long-run Phillips curve given the following values.

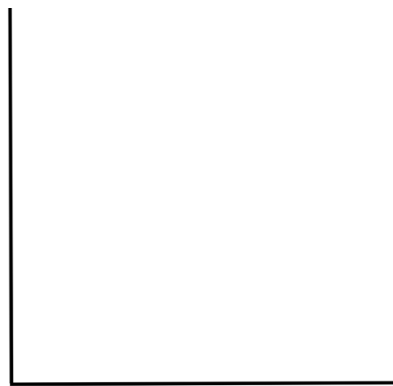
Expected inflation rate	2%
Actual inflation rate	7%
Unemployment rate	3%
Natural Rate of Unemployment	5%



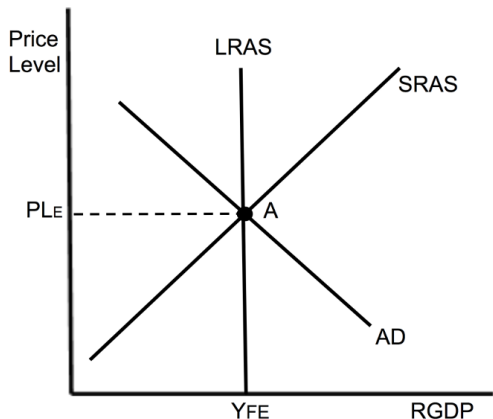
2. Draw the short-run and long-run Phillips curve. Label points A, B, and C based on the changes in AD



3. Shifts in _____ cause movements along the _____
 A=
 B=
 C=



4. Draw the short-run and long-run Phillips curve. Show the result of a negative supply shock on both graphs



5. When the SRAS curve shifts to the _____, the _____ shifts to the _____.
 6. What shifts the LRPC?





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Topic 5.3- Money Growth and Inflation ▶	Topic 5.4- Deficits and the National Debt ▶
<ol style="list-style-type: none">1. What is the equation for the quantity theory of money?2. Define the velocity of money.3. Assume the money supply is \$40 and it's used to purchase 10 products with a price of \$20 each. Calculate the velocity of money?4. When the economy is at full employment, why will an increase in the money supply have no effect on real output in the long run?	<ol style="list-style-type: none">1. What is a government budget deficit?2. What is a government budget surplus?3. Explain the difference between the budget deficit and the national debt.4. How does the existence of a large national debt affect government spending in the future?
Topic 5.5- Crowding Out ▶	Topic 5.6- Economic Growth ▶
<ol style="list-style-type: none">1. Draw the loanable funds market and show what happens when the government deficit spends2. Use the example above to define crowding out.3. Crowding out ____ physical capital accumulation and ____ the rate of growth	<ol style="list-style-type: none">1. Identify three things that influence productivity.2. Use the AD-AS model to show what happens in the long-run when lower interest rates lead to more investment <p><i>True or False:</i></p> <ol style="list-style-type: none">3. The aggregate production function shows that output per capita is positively related to both physical and human capital per capita.4. An increase in consumer spending leads to more economic growth in the long-run.5. When long-run aggregate supply shifts right the natural rate of unemployment increases.6. A sustained increase in productivity causes both the long run aggregate supply curve and production possibilities curve to shift right.
Topic 5.7- Public Policy and Economic Growth	
<ol style="list-style-type: none">1. Identify three public policies that promote economic growth.2. Define supply-side fiscal policies.	