



BIG PICTURE IDEAS

- #1. Policymakers often combine _____ policy and _____ policy to influence the economy.
- #2. The short-run _____ curve shows a trade-off between _____ and unemployment.
- #3. Expansionary monetary policy can stimulate the economy in the short run but, according to the _____ theory of money, it will lead to higher _____ in the long run.
- #4. An increase in deficit spending increases the national _____ and often results in an increase in the real interest rate and less investment, or _____ out.
- #5. More physical or human capital causes economic growth and shifts the long-run aggregate supply curve to the _____.

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

1. Identify if each will ↑, ↓, or not change in the short run:

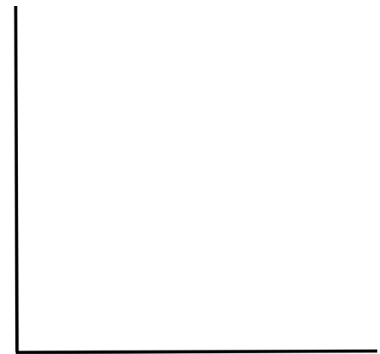
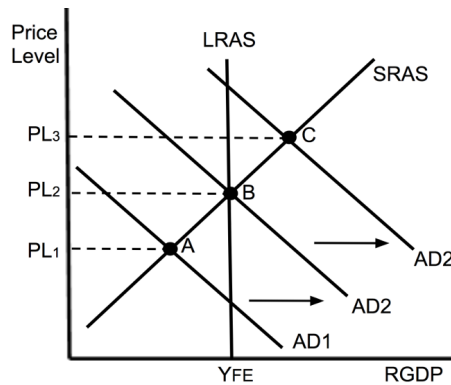
Policy	Aggregate Demand	Aggregate Supply
Contractionary monetary policy		
No policy with negative output gap		
Expansionary fiscal policy		
Expansionary monetary policy		
Contractionary fiscal policy		
No policy with positive output gap		

True or False

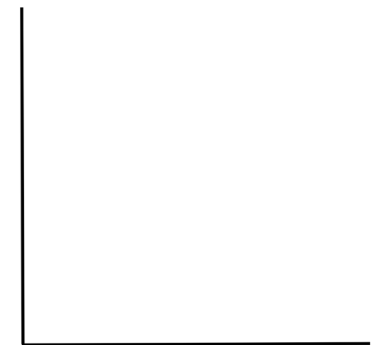
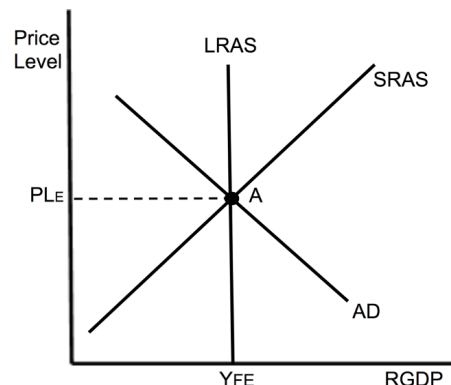
2. Open market operations are an example of fiscal policy.
3. Expansionary monetary policy can cause inflation in the long run, but expansionary fiscal policy cannot.
4. Elected politicians are more reluctant to implement contractionary policies than policymakers at the central bank.
5. Expansionary monetary policy will cause a decrease in nominal interest rates and a decrease in employment.
6. Fiscal policy is implemented by the central bank.

■ Topic 5.2- The Phillips Curve

7. On the graph to the right, draw the short-run and long-run Phillips curve and label points A, B, and C based on the changes in aggregate demand and supply.



8. On the graph to the right, draw the short-run and long-run Phillips curve and show the effects of a negative supply shock on both graphs.

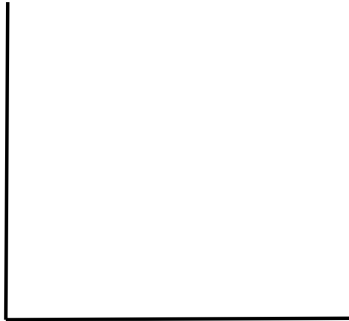




Long-Run Consequences

■ Topic 5.2- The Phillips Curve (continued)

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



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

■ Topic 5.3- Money Growth and Inflation

10. What is the equation for the quantity theory of money?

11. Define the velocity of money.

12. If the money supply is \$40 and it's used to purchase 10 products with a price of \$20 each. Calculate the velocity of money.

13. When the economy is at full employment, how will an increase in the money supply affect real output in the long run?

14. The money supply times the velocity of money equals the _____ GDP.

■ Topic 5.4- Deficits and the National Debt

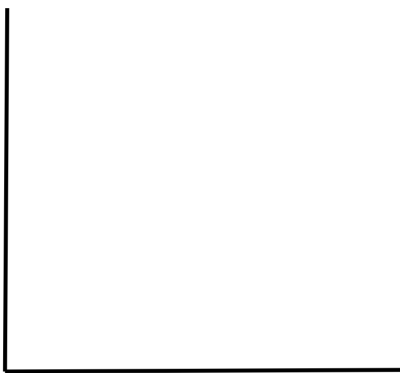
15. A budget _____ is when tax revenues are less than government purchases plus transfer payments in a year.

16. Explain the difference between the budget deficit and the national debt.

■ Topic 5.5- Crowding Out

17. Crowding out causes the real interest rate to _____ which will _____ economic growth.

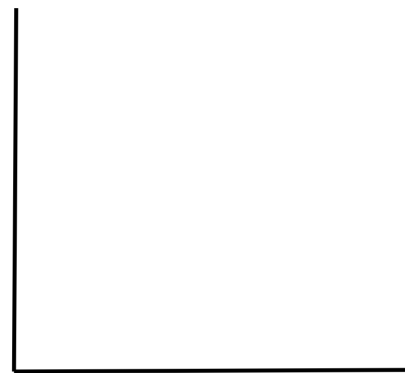
18. Draw the loanable funds market and show what happens when the government increases deficit spending.



■ Topic 5.6- Economic Growth

19. Productivity increases from new technology or an increase in physical capital or _____ capital.

20. Use the AD-AS model to show what happens in the long-run when lower interest rates lead to more investment



■ Topic 5.7- Public Policy and Economic Growth

21. Government spending can lead to economic growth if it focuses on _____, which increases human capital, infrastructure spending, or subsidies that promote _____.

22. _____ fiscal policies are laws designed to increase output by lowering taxes for businesses.

23. If wages and resource prices are flexible, a tax cut for consumers will not increase the real GDP in the _____.