

Macroeconomics Review Questions

Chapters 10-11

1. What is inflation? How can it be measured? Explain why several different measures are possible.
2. What is gross domestic product (GDP)? Explain its meaning in a non-technical way.
3. What is the business cycle? Illustrate the business cycle with a graph, taking care to label the axes. Explain your graph, identifying recessions and expansions.

Chapter 12

1. How is the standard unemployment rate statistic defined? In what ways can this either overstate or understate the number of people lacking employment opportunities?
2. Explain the difference between frictional, structural, and cyclical unemployment. Discuss some different causes of structural unemployment.
3. If all prices (including wages) go up by exactly the same amount, what are the effects? Who is made better off, and who is made worse off? What kinds of deadweight loss result?

Chapter 13

1. How is the real GDP per capita statistic different from the regular GDP statistic? Explain as clearly as you can.
2. What does the real GDP per capita statistic tell us about a country's standard of living? What does it leave out?
3. Define long run economic growth, and discuss what may cause it.
4. In what ways can government policy impact economic growth?

Chapter 14

1. Explain how widespread expectation of low employment and low national income can in fact cause low employment and low national income.
2. On the aggregate supply and demand graph, what is the horizontal axis, and what is the vertical axis?
3. What is the aggregate demand curve? Why does it slope downward?
4. What is the aggregate supply curve? Why does it slope upward in the short run? How does the long run aggregate supply curve differ from the short run aggregate supply curve?

5. Describe the short-run effect of a leftward shift in the aggregate demand curve, and the process by which the equilibrium output should return to potential output in the long run, absent government intervention. Comment on why it might not always be best to wait for this to occur on its own.

Chapter 15

1. What does the government do when it wants to carry out expansionary fiscal policy? What effect does this have on aggregate supply or demand, and why?
2. Same question, but with contractionary fiscal policy.
3. What is the most obvious possible drawback of expansionary fiscal policy?
4. What is the argument for expansionary policy? According to this argument, when is it called for?
5. What would be the drawback of a constitutional requirement for the government to balance its budget each year?

Chapter 16

1. Explain the way in which banks can create money.

Chapter 17

1. What does the Fed do when it wants to carry out expansionary monetary policy? What effect does this have on aggregate supply or demand, and why?
2. Same question, but with contractionary monetary policy.
3. What is the most obvious possible drawback of expansionary monetary policy?