

1. LRAS is the economy's output at full employment. Resources, the number of workers, the size of capital stock, and technology determines the level of LRAS. LRAS is potential GDP because it represents where GDP will be if all resources are utilized at full employment. U bar means full employment.
2. All of these would shift LRAS to the right
3. SRAS is the current supply of goods. Firms and businesses determine SRAS. It has a positive slope because of input prices, menu costs, and the fact that at a high PL the quantity of goods/services firms are willing to supply increases.
4. ALL
5. EASY PEASY LEMON SQUEEZY
6. SR equilibrium is at a higher PL and lower output. The recession caused by the supply shock leads to falling wages and prices, shifting SRAS back to LRAS and back to potential at PL 100
 - a. Stagflation occurs when SRAS shifts left, and any adjustment mechanism (which shifts AD) would either lower PL and raise U , or vice versa.
 - b. Wages fall and so do prices because the economy is currently in a recession at high PL as it returns to Y bar
7. Leftward shift in AD causes lower PL but lower RGDP
 - a. Since recession means higher unemployment, workers will be more willing to accept lower wages. Since demand is lower, firms will then cut prices. This is why the economy will automatically return to Y bar by a shift right in SRAS.
 - b. Wages will fall and so will prices
8. I said it in 7a so well I don't have to answer that shiznitt
9. Fiscal Policy will decrease taxes (which increases income which increases consumption) and increase government expenditures during a recession. Both of these will effect AD. This will dramatically raise the debt though, because $\text{debt} = \text{tax revenue} - \text{govt expenditures}$.
10. During a recession, monetary policy will react with an open market purchase. This will increase M1 in the economy. It will also shift the supply of loanable funds to the right, which will lower interest rates. Lower interest rates means spend more save less, which shifts AD to the right.
 1. BOTH 9 and 10 effect AD
11. The internet
 - a. Positive shock on the US economy
 - b. It was a shock to supply
 - c. The internet increased worker productivity
 - d. LRAS and SRAS both shifted to the right, which means it increased our economy's potential at full employment. AD wasn't effected.
 - e. Not sure...
12. A barter economy is when goods and services are traded directly
 - a. This means a double coincidence of wants is needed. (Trading)
Inefficient
13. Money simplifies transactions. Widely accepted and can buy anything. Increases PPF
14. Medium of exchange, store of value, unit of account, standard of deferred payment

15. Credit cards are instant loans
16. M1=Currency in circulation+money in checking accounts+travelers checks.
M2=?
17. The Federal Reserve System was created on Dec 23 1913 in response to a series of financial panics. Intended to maximize employment, stabilize prices, and moderate long term interest rates
18. Oversee the nation's open market operations (OMS and OMP). Sets monetary policy to achieve targeted federal funds rate.
19. FOMC establishes how much money is in the economy and also largely effect interest rates which directly effect consumption and investment
20. They'll be talking about employment, consumer confidence, RGDP, fiscal policy, and proper monetary policy. Decisions are made w/ respect to interest rates. It's very important to discuss how to communicate decisions to public.
21. ST i-rate refers to loan of 1 year or less. LR i-rate refers to loan of 10 years or more
22. Targeted unemployment was not reached yet, so they wanted to keep interest rates low to keep consumer confidence and stimulate consumption
23. Same as 22 I think
24. Businesses control their investments with respect to interest rates, so if monetary policy is going to raise interest rates, they won't invest simply due to expectations
25. Depends on current output and employment. If economy is in somewhat of a recession with high unemployment, it will keep its foot on the gas and keep interest rates low. If economy is healthy and close to Y_{bar} , it will start to begin to consider in the near future yada yada yada tapering and raising interest rates.
26. Using OMP and OMS they FOMC can influence interest rates. OMP will increase the supply of loanable funds, which lowers interest rates.
27. US gov't uses Treasury bonds to finance operations. Investor buys a bond and receives annual coupon with interest payment. Stocks are basically extremely small shares of a company's overall profit, that are paid in "dividends" each year. Size of dividend depends on shares of stock x value of stock
28. RGDP only comes out once every quarter, but employment reports come out every month. Must interpret job report to make decisions about economy.
29. Open Market operations are when the FOMC buys or sells bonds. During a recession, the Fed should do an open market purchase to increase the M1 in the economy, and increase the supply of loanable funds, which lowers interest rates, which increases consumption and investment.
30. IDK
31. The supply of loanable funds represents lenders/savers and the demand represents borrowers
32. OMP increases loanable funds, lowers I, increases C and I, shifts AD right
33. OMS decreases loanable funds, raises I, decreases C and I, shifts AD left
34. If AD shifts right and the FOMC wanted to step in, they would do an OMS to raise interest rates, lowering C and I, shifting AD left. If there were no policy intervention, SRAS would shift left to return economy to full output. It would shift left because a higher demand means workers will demand a raise which increases input costs, which shifts SRAS left.
35. The Great Recession was "Great" because it was caused by a financial crisis.

- a. I also think it was so great because Oil Prices increased which shifted SRAS to the left, then the credit crunch and household wealth shifted AD left, causing a small increase of PL but RGDP was 700 billion short of Y bar.
36. No, it is at 7% and the threshold of full employment is 6.5%
37. The Fed DOES NOT control interest rates. Many factors go into interest rates, but by controlling monetary policy and the supply of loanable funds, they greatly influence interest rates.
38. The Fed needs to be clear about its objectives because they largely influence consumer confidence. If economy thinks interest rates will be high, they will decrease consumption and investment.
39. I think 203,000 new jobs were created in November. The unemployment rate fell from 7.3% to 7%. The numbers were better than October.
40. Articles
- a. The declining unemployment rate is from people leaving the labor force. Also, it is thought that the biggest drivers of the nation's job growth are lower-paying industries.
 - b. The job market appeared weaker and fiscal standoff in Washington loomed
 - c. As long as the resulting overall posture of policy preserves a high degree of accommodation
 - d. They might pull back Quantitative Easing as early as next meeting
 - e. How to convince the public that they will keep short-term interest rates near zero long after the bond-buying program ends.
 - f. They believe they can hold down LT interest rates by signaling to investors they plan to keep short-term interest rates near zero in the future
 - g. Investors in the summer thought that the tapering talk meant short-term rate increases were approaching.
 - h. Dow Jones Industrial Average rose 198.69 points or 1.3%, which was the largest in seven weeks. The 10-year interest rate barely rose, which both mean financial markets weren't rattled by tapering talks.
 - i. After the unemployment rate crosses 6.5%, the Fed will start discussion of tapering.
41. Congress passes the ARRA to stimulate the economy through lower taxes and increased government spending.
42. An automatic stabilizer is federal spending and tax revenues that automatically change during expansion or contraction
- a. In a recession, when RGDP is falling, NI is falling and U is rising. As a result, an increase in government spending (Unemployment compensation such as Medicaid) and a decrease in tax revenues increase National Income. Consequently, the budget moves in the deficit direction ($T-G=B$)
43. Expenditures are MUCH greater than tax revenues, because we are kinda in debt (by like 17 trillion dollars)