

STUDY GUIDE for SECOND EXAM
ECO2013-03 - FA2011 - Martha Evans, Instructor

Note: This study guide is intended to be used as a tool to help you prepare for the test. It is an outline representing the topics that have been emphasized in lecture, the book, and the slides for each section/chapter. It is NOT an exact representation of the way that questions will be phrased on the test.

CHAPTER 8: ECONOMIC FLUCTUATIONS, UNEMPLOYMENT, and INFLATION

1. **Macroeconomic Goals:** What are the five macroeconomic goals that both fiscal policy-makers and monetary policy-makers agree upon?
 - Full employment
 - Price stability
 - Exchange rate stability
 - Stability in financial markets
 - Economic growth
 - Interest rate stability

2. **Business Cycles:** Fluctuations around long-run GDP are known as Business Cycles. What exactly are business cycles? How do they differ from long-run growth?
 - Business cycles are characterized by expansions and contractions of varying duration and magnitude.

3. **Phases of the Business Cycle:** There are four phases. What are they and what are the conditions in the economy with respect to output and employment during these phases?
 - expansion
 - peak
 - contraction
 - recessionary trough

4. **Recent Recessions:** Understand the factors that caused the recessions of 2001 and the current "Great Recession".
 - the factors that caused the current recession are: overspending and too many loans were given.

5. **The Labor Market:** We describe the labor market in very particular ways. The government agency that gathers statistics on the labor market is the Bureau of Labor Statistics:
 - a. Civilian Labor Force-civilians(16+) who are either employed or unemployed
 - b. Employed-person 16+ who is working, self employed, or working with family enterprise for 15+ hours a week.
 - c. Unemployed -actively seeking or waiting to begin a job or on layoff waiting to return to a previous job.

- d. Labor Force Participation Rate – how is this calculated?

$$= (\# \text{ in labor force}) / (\text{civilian population, 16+})$$
6. **Women in the Labor Force:** When and why did the labor force participation of women begin to change dramatically? What is the trend? 1960's; women were socially acceptable to work and men were socially acceptable to stay home with kids, it depends on which is more economical.
7. **Causes of Unemployment:** In a dynamic economy such as that of the U. S., is job loss usually the major cause of unemployment? How does that differ from that of the Great Recession? Which demographic group (by gender and age) displays the highest unemployment rate? The different reasons why there may be unemployment: demised from jobs, and either new entrants or reentrants to the work force.
8. **Types of Unemployment:** What is the difference between structural, frictional, and cyclical unemployment?
 --frictional: (Normal), caused by imperfect information. Occurs because: employers are not aware of all available workers and their qualifications, and workers are not fully aware of all the jobs being offered by employers.
 --Structural: reflects imperfect match of employee skills to skill requirements of the available jobs, as well as structural and demographic characteristics of the labor market.
 --Cyclical: (WORST), reflects business cycle conditions (when there is a downturn in business activity, cyclical unemployment decreases)
9. **Unemployment and the Economy:** What is the difference between Actual and Potential GDP? When the economy is performing at its potential, what type of unemployment will be experienced? What is meant by "full employment"?
 --Potential GDP: maximum sustainable output level consistent with the economy's resource base, given institutional arrangements.(how much we can produce)
 --Actual GDP: what we actually produce
 ** actual and potential output will be equal when economy is at full employment.
10. **If the economy is in a recession, will the unemployment rate be above or below the "natural" rate?** If the economy is in a boom, will the unemployment rate be above or below the natural rate?
 if in recession, unemployment will be below natural rate and in boom, unemployment will be above natural rate.
11. **What might explain the relatively high rates of unemployment in Spain and Italy?**
 How can these high rates be explained by what you've learned about the importance of

incentives?

In Spain and Italy, there are higher unemployment benefits, less flexible collective bargaining, and more regulated labor markets. Incentives are what motivate people to work or not to work so it isn't a coincidence that these countries have high rates of unemployment.

12. Inflation: What are the two causes of inflation? Countries with relatively low rates of inflation also experience smaller annual swings in their inflation rates. Is the U. S. a high-inflation or low-inflation country?

1. rapid expansion of money supply (we have 7mil but purchase 14 mil; each dollar is used at least twice)
2. unexpected increases in aggregate demand

13. Which of the two will have more of an adverse effect on the economy; Anticipated or Unanticipated Inflation? Why? What's the difference?

Unanticipated inflation will have more of an adverse effect on the economy because there is a surprise price increase versus expecting a change in price level.

14. Effects of Inflation: What are the three main ways in which high and variable rates of inflation have an adverse effect on the economy?

1. uncertainty is created
2. causes uneven distribution of wealth
3. hurts families on fixed incomes that are not indexed for recession (this decreases standard of living)

15. Unemployment Rate: Be able to calculate. $^{***} \text{labor force} = \text{employed} + \text{unemployed}$

$$\frac{(\# \text{ unemployed})}{(\# \text{ in labor force})}$$

16. Labor Force Participation Rate: Be able to calculate.

$$\frac{(\# \text{ in labor force})}{(\text{civilian pop. } 16+)}$$

17. Unemployment Duration: Which type of unemployment is generally longer in duration; Frictional or Structural?

CHAPTER 9: AN INTRODUCTION TO BASIC ECONOMIC MARKETS

1. Fiscal and Monetary Policy:

- a. What is Fiscal Policy, and by whom is it administered?