

Chapter 15:

- Suppose Venezuela experiences economic growth in 2013, yet its unemployment rate is 15 percent, which is above the South American average. This indicates that Venezuela's 2013 output is **below potential output**.
- Suppose Venezuela experiences economic expansion in 2013, yet its unemployment rate is at 15 percent. All else equal, if this unemployment rate is above the natural rate of unemployment, what will tend to happen over time? **Wages and prices will fall.**
- If potential output is **greater** than the current level of GDP, the unemployment rate is **above** the natural rate.
- Suppose that the unemployment rate is **above** the natural rate. We would expect prices to fall, money demand to fall, interest rates to fall and total demand to **rise**.
- Wages and prices throughout an economy are less than previous inflation rate when what occurs? **Output is less than potential output.**
- In the long run **the economy operates at full employment.**
- In the short run, **increases** in the supply of money **increase** the level of output.
- If GDP is **below** potential output, adjustment to the long-run equilibrium to requires that output rises and prices **fall**.
- If GDP is above potential output, then we expect to see **increasing wages, causing the short run aggregate supply curve to shift up.**
- If GDP is **above** potential output, then we expect to see **increasing** wages, causing the short run aggregate supply curve to shift up.
- The Keynesian view that demand could fall short of production is more likely to hold true is **wages and prices are not fully flexible.**
- A decrease in the money supply causes **a short-run decrease in the level of output.**
- Suppose an economy that has been operating at full employment has been experiencing 4 percent annual inflation. If output later exceeds potential output, prices generally will begin to rise at **a rate greater than 4 percent.**
- Investment is "crowded out" by an increase in government spending because **an increase in government spending causes output and prices to rise, which in turn causes interest rates to rise.**
- In an aggregate supply and aggregate demand diagram, the long-run aggregate supply curve is represented by **a vertical line at full employment.**
- Assuming an upward-sloping short-run aggregate supply curve, a decrease in government spending results in **a decrease** in output and **a slightly decrease** in prices in the short run.
- If GDP is **above** potential output, then we expect to see **increasing wages, causing the short-run aggregate supply curve to shift up.**
- Suppose the GDP is **below** potential output. We would expect prices to fall, money demand to fall, interest rates to fall, and total demand to **rise**.
- Refer to Figure 15.4. Suppose that the economy is originally in equilibrium to point a. In the long run, as the supply of money decreases, the economy moves to point **d**.
- Refer to Figure 15.2. The economy is at full employment and the unemployment rate is the natural rate at point **b**.

- Refer to figure 15.2: The unemployment rate is below the natural rate at point **c**.
- Refer to Figure 15.1: The long – run equilibrium occurs at point **a**.
- When GDP is below potential output, prices fall because **firms can easily find new workers and can offer lower wages which decreases the costs of production**.
- Refer to Figure 15.3. If this economy is initially in a recession, the change in price level which would bring the economy back to full employment would also change the money demand and interest rates. The change in interest rates will change investment spending which is reflected by the movement from **e to f**.

Chapter 17:

- A flat tax which does allow deductions for investment spending is a type of **consumption tax**.
- A deficit is defines as **the excess of total expenditures over total revenues**.
- Arguments against the balanced budget amendment include which of the following? **A balanced budget amendment would limit Congress' ability to use fiscal policy during a recession**.
- The government borrows money to cover budget deficits by **selling bonds**.
- If government spending is \$900 billion while government revenue is \$600 billion, the government is said to have a: **\$300 billion budget deficit**.
- Monetizing the budget deficit **leads to increases in the money supply**.
- Suppose the government's initial debt is \$400 billion. If for the next three years the government runs deficits of \$150, \$125, and \$200 billion, the government's additional debt at the end of the three years will be: **\$475 billion**.
- Suppose the government's initial debt is \$425 billion. If for the next three years the government runs deficits of \$150, \$125, and \$200 billion, the government's total debt at the end of the three years would be **\$900 billion**.
- During recessions, unemployment **increases** while the budget deficit as a percentage of GDP **increases**.
- Income and revenue from taxes have a specific relationship during recessions. What is it? **Income fall, tax revenue decreases**.
- A flat tax which does not allow for deductions of credits is essentially a tax on **income**.
- Which of the following illustrates a burden of the national debt? **A large debt decreases the amount of capital, thereby decreasing future incomes**.
- Complete price stability would be the result of **an inflation rate of zero**.
- The government debt is defined as **the sum of all past deficits and surpluses**.
- Automatic stabilizers dampen economic fluctuations during recessions because **tax payments** decrease while **transfer payments** increase.
- If the private sector is not willing to purchase government bonds being issued to finance a deficit, and the government's only option is to print more money, this will likely cause **inflation**.
- If bringing an economy out of recession, a government will often resort to **expansionary** fiscal policies, which often result in budget deficits.
- A flat tax which does not allow for deductions or credits is essentially a tax on **income**.

- Government debt “crowds out” private investments because **the government and private firms compete in the same market for savings.**
- The sum of all budget deficits and surpluses is known as the **government debt.**
- Automatic stabilizers are changes in **taxes and transfer payments** that occur automatically as economic activity changes.

Chapter 18:

- Which of the following situations will arise in the domestic market following the imposition of an import ban? **Imports decrease, domestic production increase, prices increase.**
- Suppose the nation of Arcadia produces only two goods, teapots and surfboards. If Arcadia produces only teapots, it can make 40 per day. If Arcadia produces only surfboards, it can make 60 per day. What is the opportunity cost of 1 teapot in Arcadia? **1.5 surfboards.**
- The WTO and GATT promote trade **by all of the above (reducing tariffs, reducing agricultural subsidies, eliminating quotas).**
- The slope of the production possibilities curve is **the opportunity cost of one good in terms of the other.**
- Exporting nations often agree to voluntary export restraints in an attempt to **avoid more restrictive trade policies.**
- Refer to Table 18.1. Panama has a comparative advantage in **gloves.**
- Refer to Figure 18.1. The United States has a comparative advantage in the production of **hang gliders.**
- Refer to Table 18.1. Mutually beneficial terms of trade between Russia and Panama are **1 hat for 1 glove.**
- Refer to Table 18.1. The opportunity cost of a hat in Russia is **1/3 of a glove.**
- Refer to table 18.1 The opportunity cost of a glove in Russia is **3 hats.**
- Refer to table 18.1 Russia has a comparative advantage in **hats.**
- Refer to Figure 18.4. With an import ban, what is the equilibrium quantity of gloves in Duckland? **60**
- Refer to Figure 18.4: With free trade, what is the equilibrium quantity of gloves in Duckland. **100.**
- For the nation to have **a comparative advantage** in producing a good it must have a lower opportunity cost of producing that good than the other country.
- Refer to Figure 18.4. With free trade, how many gloves are produced domestically in Duckland? **0.**
- As a whole, nations are better off after trade and specialization because **nations can consume along their consumption possibilities curve, which is outside of their production possibilities curve.**
- According to the infant industry argument for trade protectionism, **new industries need to be shielded from competition in the early stages of learning by doing.**
- Suppose the nation of Alphonia was charged with dumping electric lawnmowers in the nation of Omegalon. The charge of dumping electric lawnmowers in the Omegalon market means that Alphonia was accused of **selling electric lawnmowers below cost or below domestic prices.**