Unit 2 - INTRODUCTION TO MACROECONOMICS

Chapter 12 - AS/AD

- Reading Assignments:
  - Chapter 12 - Aggregate Supply and Aggregate Demand: ALL
  - PLUS:
    - The Business Cycle: pp. 168-170
    - Promoting Stability: p. 81-82
    - Taxation and AS (Supply -Side Economics): pp. 367-368
    - From Short Run to Long Run: pp. 354-361
    - Types of Inflation: pp. 177-178
    - Fiscal Policy: pp. 255-258
- Study Guide
  - Multiple Choice: # 1-9, 14-20, 22-25
  - Problems: # 1, 2,
- Web Quiz at http://www.mcconnell18e.com: # 1-6, 8-10
- End-of-Chapter Key Questions: # 12-4, 12-6, 12-7
  [the answers to the key questions can be found on our Blackboard site]

Chapter 6 - An Introduction to Macroeconomics

- Reading Assignments:
  - Chapter 6 ALL
  - PLUS:
    - review "Business Cycles": pp. 168-170
    - review "Promoting Stability": pp. 81-82
    - review "Present Choices, Future Possibilities": pp. 17-18
- Study Guide
  - Multiple Choice:# 1-8, 11-15, 17, 25
  - Problems: 2, 3
- Web Quiz at http://www.mcconnell18e.com: ALL
- End-of-Chapter Key Questions: # 6-7
  [the answers to the key questions can be found on our Blackboard site]

Chapter 9 - Unemployment and Inflation

- Reading Assignments: ALL of chapter 9
- Study Guide
  - Multiple Choice: # 1-11, 14-17, 19-23, 25
  - Problems: # 1, 3, 4
- Worked Problem 9.1 and 9.2 at http://www.mcconnell18e.com
- Web Quiz at http://www.mcconnell18e.com: # 1-6, 8, 10
- Key Questions # 1, 2, 3, and 5

- End-of-Chapter Key Questions: # 9-1, 9-3, 9-8
  [the answers to the key questions can be found on our Blackboard site]

Chapter 7 - Measuring the Economy-

- Reading Assignments: Chapter 7 - ALL
- Study Guide
  - Multiple Choice: # 1, 2, 4-7, 9-13, 15-19, 23-30
  - Problems:
    - Chapter 7: # 4, 5
    - Chapter 6: #1
- Worked Problem 7.2 at http://www.mcconnell18e.com
- Web Quiz at http://www.mcconnell18e.com: # 1, 2, 4-10
- Key Question # 4
- End-of-Chapter Key Questions: # 7-3, 7-12
  [the answers to the key questions can be found on our Blackboard site]

Chapters 8 and Web Chapter 22 - Economic Growth and the Less Developed Countries

- Reading Assignments
  - Chapter 8 - ALL
  - PLUS: "A Growing Economy" pp. 15-16
  - Web Chapter 22 - ALL
    - at: http://highered.mcgraw-hill.com/sites/dl/free/0073126632/384249/mcc26632_ch16w.pdf
  - also read: http://www.harpercollege.edu/~mhealy/g101ilec/intro/eco/ecomea/ecomeafr.htm
- Study Guide
  - Chapter 8:
    - Multiple Choice: # 1-3, 6-10, 13-23, 25
    - Problems: # 1, 2, 4
  - Chapter 22W:
    - Multiple Choice: # 1-14, 16-25
    - Problems: # 1, 2
  - Chapter 6 multiple choice # 11
- Web Quizzes at http://www.mcconnell18e.com
  - Chapter 8: 1-7, 10
  - Chapter 22W: 1-9
- Key Questions
  - Chapter 16: # 2
  - Chapter 16W: # 1 and 2
- End-of-Chapter Key Questions: # 8-2, 8-5, 8-6, 8-11, 22-3, 22-5
  [the answers to the key questions can be found on our Blackboard site]

Determinants of AD

↑AD	↓AD
C ↑⇒↑AD	C ↓⇒↓AD
I ↑⇒↑AD	I ↓⇒↓AD
G ↑⇒↑AD	G ↓⇒↓AD
Xn ↑⇒↑AD	Xn ↓⇒↓AD
MS ↑⇒↓Interest Rates ⇒I↑ ⇒↑AD	MS ↓⇒↑ Interest Rates ⇒I ↓⇒↓AD
T ↓⇒↑C ⇒↑AD	T ↑⇒↓C ⇒↓AD
S ↓⇒↑C ⇒↑AD	S ↑⇒↓C ⇒↓AD

But what causes these things to change? Well, economists have identified some determinants of the main components of spending: C, I, G, and Xn.

Determinants of C, I, G, and Xn:

C = consumer spending (and saving)

1. consumer wealth
   Wealth ↑⇒↑C ⇒↑AD
   Wealth ↓⇒↓C ⇒↓AD
2. consumer expectations
   Expected future Income ↑⇒↑C today ⇒↑AD today
   Expected future Income ↓⇒↓C today ⇒↓AD today
3. consumer indebtedness
   Consumer Debt ↑⇒↓C ⇒↓AD
   Consumer Debt ↓⇒↑C ⇒↑AD
4. taxes
   T ↑⇒↓C ⇒↓AD
   T ↓⇒↑C ⇒↑AD

I = investment spending

1. interest rates (money supply)
   MS ↑⇒↓Interest Rates ⇒I ↑⇒↑AD (memorize this, it will help in future chapters)
   MS ↓⇒↑ Interest Rates ⇒I ↓⇒↓AD

2. profit expectations on investment projects
   profit expectations ↑⇒I ↑⇒↑AD
   profit expectations ↓⇒I ↓⇒↓AD
3. business taxes
   Business Taxes ↑⇒↓I ⇒↓AD
   Business Taxes ↓⇒↑I ⇒↑AD
4. technology
   technology ↑⇒I ↑⇒↑AD
5. degree of excess capacity
   excess (unused) plant capacity ↑⇒↓I ⇒↓AD
   excess (unused) plant capacity ↓⇒↑I ⇒↑AD

G = government purchases

Xn = net export spending

1. net income abroad
   Income in Foreign Countries ↑⇒↑Xn ⇒↑AD
   Income in Foreign Countries ↓⇒↓Xn ⇒↓AD
2. exchange rates
   value of the US dollar ↑⇒↓Xn ⇒↓AD
   value of the US dollar ↓⇒↑Xn ⇒↑AD

Determinants of AS

↑AS	**↓AS**
price of resources ↓⇒↑AS	**price of resources ↑⇒↓AS**
productivity ↑⇒↑AS	**productivity ↓⇒↓AS**
business taxes and gov't red tape ↓⇒↑AS	**business taxes and gov't red tape ↑⇒↓AS**

Kitchen sink economics

http://money.cnn.com/2003/06/27/news/economy/secondhalf_economy/index.htm

Policy makers have thrown all but the kitchen sink at the economy. Will it help in the second half?

July 3, 2003: 10:23 AM EDT

By Mark Gongloff, CNN/Money Staff Writer

NEW YORK (CNN/Money) - Will the "kitchen sink" approach really fix the economy?

Policy makers in the federal government and the Federal Reserve have thrown everything but the kitchen sink at the ailing economy, and most economists are saying their efforts will spur relatively robust economic growth in the second half.

After growing at a paltry 1.4 percent rate in the first quarter and probably not much better in the second, gross domestic product (GDP) is expected to grow at a rate of 3.4 percent in both the third and fourth quarters, according to the Philadelphia Fed's latest survey of professional forecasters.

Of course, economic forecasters have often been overly optimistic since early 2001, when a recession/jobless recovery cycle began, and have been forced many times to ratchet down their expectations.

"All the good growth is in the forecasts, in the idea that financial conditions have eased," said Rory Robertson, interest-rate strategist at Macquarie Equities (USA). "But we've seen that doesn't always turn into actual good growth."

Still, Robertson and other economists have a little more reason to hope that this time might be different, thanks to a combination of:

- the recently-signed tax-cut plan, which will give rebate checks to families with children in late summer, right in time for back-to-school spending;
- improving consumer confidence -- critical, since consumer spending makes up more than two-thirds of the economy;
- the Fed's 13th rate cut of the cycle, taking the fed funds rate to 45-year lows;
- a weakened dollar, which should help make U.S. exports more competitive overseas; and a healthier stock market, making consumers feel wealthier.

German economy stalls
http://money.cnn.com/2001/08/23/europe/germany/index.htm
August 23, 2001: 10:37 a.m. ET

Europe's biggest economy grinds to a halt in Q2; ECB may cut rates

LONDON (CNN) - Confirmation that German economic growth has stalled could give euro-zone monetary chiefs the excuse to cut interest rates next week.

Growth in Europe's biggest economy ground to a halt in the second quarter, official figures from Germany's Federal Statistics Office showed on Thursday, as most economists had predicted.

The numbers reflect output and investment cutbacks by companies suffering from excess stock amid a global economic slowdown. The construction industry came under pressure as building work on factories and offices dwindled.

German Finance Minister Hans Eichel refused to be downcast, however, telling ZDF television there was "no reason for pessimism." Referring to tax cuts that came into force in January, Eichel forecast an upturn in demand later in 2001.

"We see that the inflation rate is going down, so that there is a chance that tax reform with its enormous relief in the second half of the year will begin to work," Eichel said.

But that isn't likely to deliver a revival in the economy until the end of the year, economists warned

The economy's big surprise

Some analysts think 3Q GDP grew at the strongest pace in four years -- but jobs may stay scarce.

October 16, 2003: 5:42 PM EDT

By Mark Gongloff, CNN/Money Staff Writer

http://money.cnn.com/2003/10/16/news/economy/gdp/index.htm

NEW YORK (CNN/Money) - Economists have been jacking up their forecasts for third-quarter economic growth, and many now say it may be the strongest number in nearly four years.

The problem is that might not translate into strong jobs growth anytime soon.

Economists, on average, think gross domestic product (GDP) grew at a 5 percent rate in the quarter, according to the latest surveys by Blue Chip Economic Indicators and the *Wall Street Journal*. Such a rate would be pretty decent -- the fastest pace since the first quarter of 2002, in fact.

But recent reports on international trade and consumer spending have many economists looking for something even faster -- say 6 percent, or maybe even 7 percent, strength not seen since GDP grew at a 7.1 percent pace in the fourth quarter of 1999. GDP is the broadest measure of the nation's economy.

"We are looking at a growth rate somewhere in between 6.5 percent and 7 percent at this point," said Oscar Gonzalez, economist at John Hancock Financial Services in Boston. "I think it's really going to be up there."

The Commerce Department's report last week of a surprising August improvement in the international trade balance was the first report to send economists scrambling for their calculators. Since the trade gap subtracts from overall GDP, the surprise narrowing of that gap in August should help third-quarter GDP.

The department helped out again this week, when it revised upward retail sales figures for July and August. Since consumer spending makes up more than two-thirds of total GDP, the revised data had many economists more firmly convinced third-quarter GDP could be big.

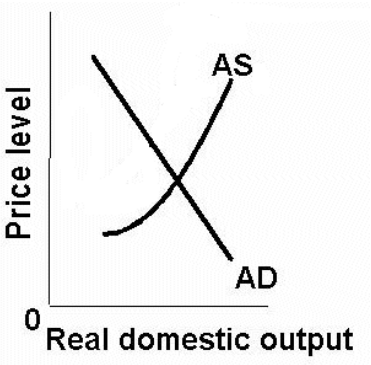
"Seven percent is not an unreasonable estimate for GDP growth," said Kevin Logan, chief market economist at Dresdner Kleinwort Wasserstein. "Retail sales were strong, especially with the revisions. Consumer spending possibly grew 12 percent at an annual rate. That's really charging right along."

Macroeconomics: AD / AS REVIEW

Use the graphs and the other information provided to answer the questions. BEFORE answering the questions DRAW the appropriate shifts on the graphs and use the graphs to FIND the answers. Click HERE for answers, BUT only after you have done the problems yourself!

1. Assume that there is an **increase in government spending**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

Unemployment _____

Price Level _____

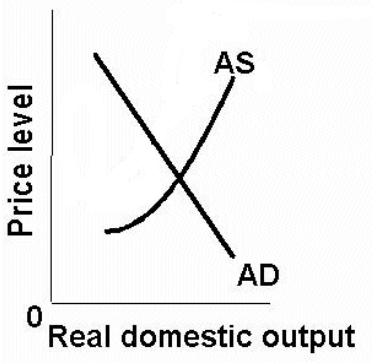
Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]

2. Assume that there is an **increase in taxes**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

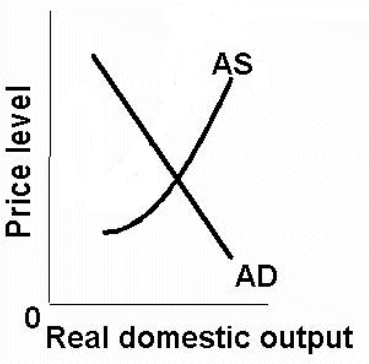
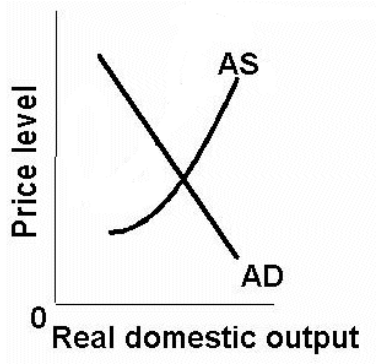
Unemployment _____

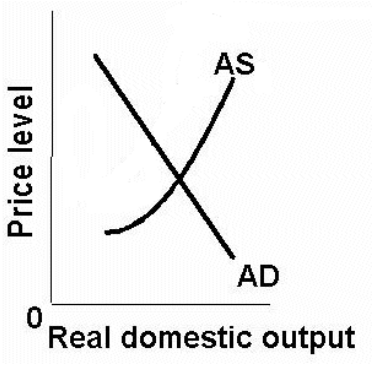
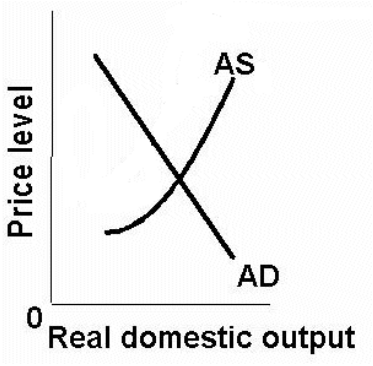
Price Level _____

Inflation _____

Economic Growth _____

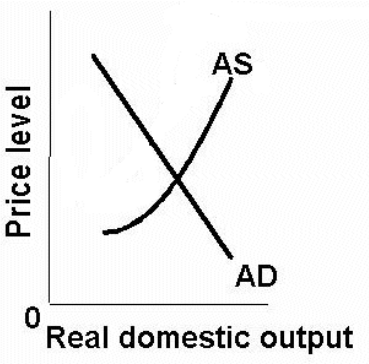
[Δ GDP or Δ potential GDP ?]

3. Assume that there is **reduced gov't red tape** Which determinant? _____ Δ AD or Δ AS? ↑ or ↓ ?  **What happens to:** Real GDP _____ Unemployment _____ Price Level _____ Inflation _____ Economic Growth _____ [Δ GDP or Δ potential GDP ?]	4. Assume that there is an **increase in business investment** Which determinant? _____ Δ AD or Δ AS? ↑ or ↓ ?  **What happens to:** Real GDP _____ Unemployment _____ Price Level _____ Inflation _____ Economic Growth _____ [Δ GDP or Δ potential GDP ?]

5. Assume that there is an **increase in oil prices due to war** Which determinant? _____ Δ AD or Δ AS? ↑ or ↓ ?  **What happens to:** Real GDP _____ Unemployment _____ Price Level _____ Inflation _____ Economic Growth _____ [Δ GDP or Δ potential GDP ?]	6. Assume that **the Fed decreases the money supply** Which determinant? _____ Δ AD or Δ AS? ↑ or ↓ ?  **What happens to:** Real GDP _____ Unemployment _____ Price Level _____ Inflation _____ Economic Growth _____ [Δ GDP or Δ potential GDP ?]

7. Assume that there is **new technology that reduces electricity costs**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

Unemployment _____

Price Level _____

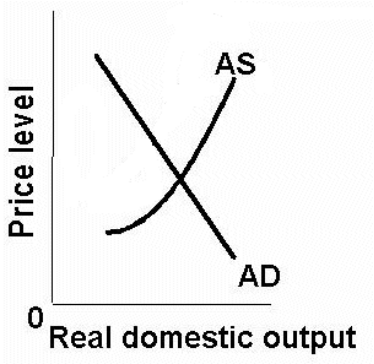
Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]

8. Assume that **exports increase**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

Unemployment _____

Price Level _____

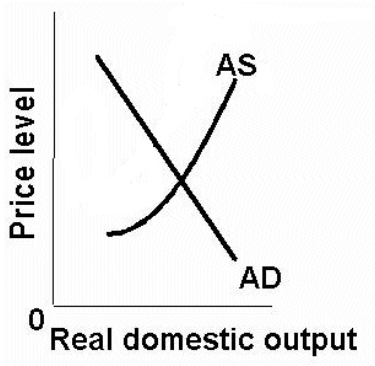
Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]

9. Assume that there is a **decrease in marginal tax rates which increases labor productivity**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

Unemployment _____

Price Level _____

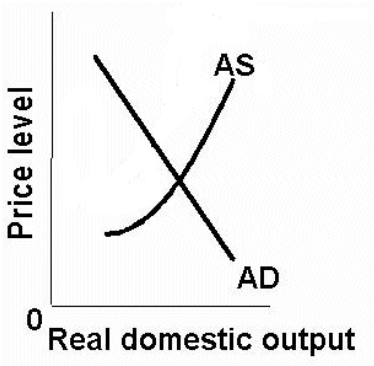
Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]

10. Assume that there is an **poor harvests world wide which increases resource prices**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

Unemployment _____

Price Level _____

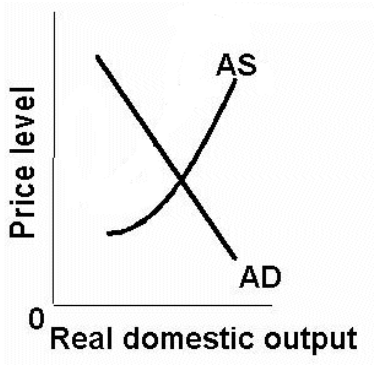
Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]

11. Assume that there is a **rise in the foreign exchange value of the dollar**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

Unemployment _____

Price Level _____

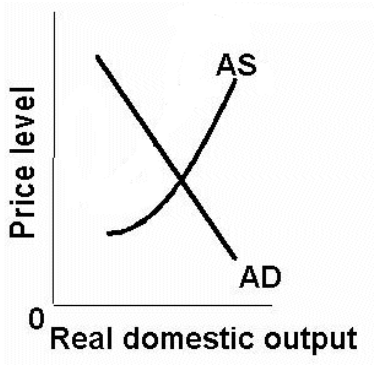
Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]

12. Assume that there is an **increase in labor training and education**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

Unemployment _____

Price Level _____

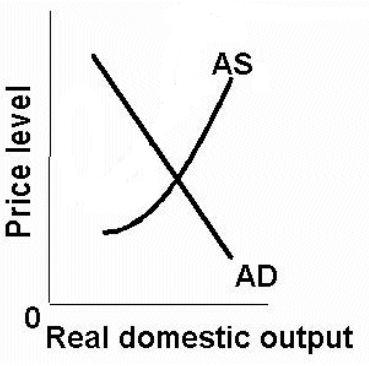
Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]

13. Assume that there is an **increase in consumer debt**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

Unemployment _____

Price Level _____

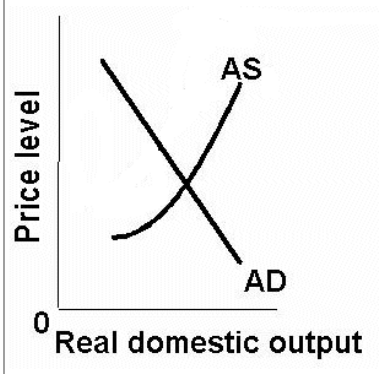
Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]

14. Assume that there is a **decrease in consumer confidence**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

Unemployment _____

Price Level _____

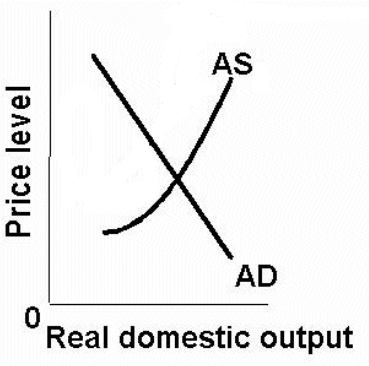
Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]

15. Assume that there is an **recessions in Europe, Japan, and Canada**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

Unemployment _____

Price Level _____

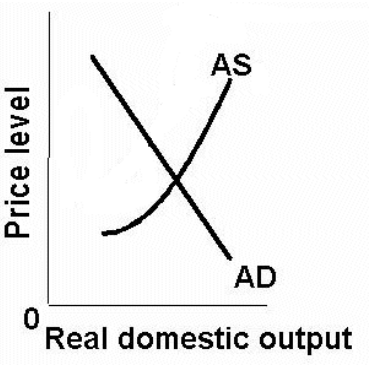
Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]

16. Assume that there are **discoveries of new oil fields**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

Unemployment _____

Price Level _____

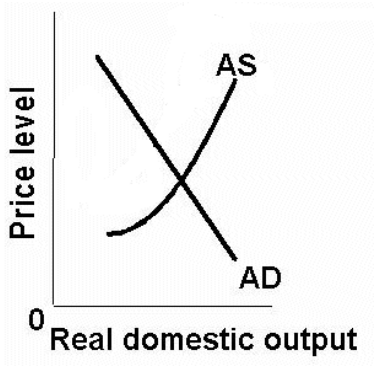
Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]

17. Assume that there is an **increase in interest rates not caused by price level changes**

Which determinant? _____
Δ AD or Δ AD?
↑ or ↓ ?



What happens to:

Real GDP _____

Unemployment _____

Price Level _____

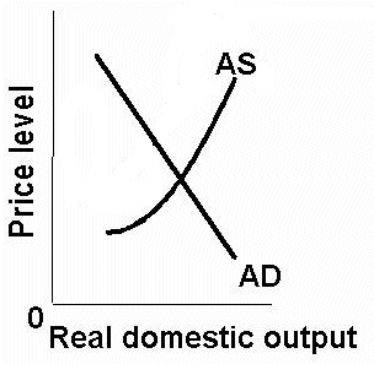
Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]

18. Assume that there is a **decrease in the amount of money in circulation**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

Unemployment _____

Price Level _____

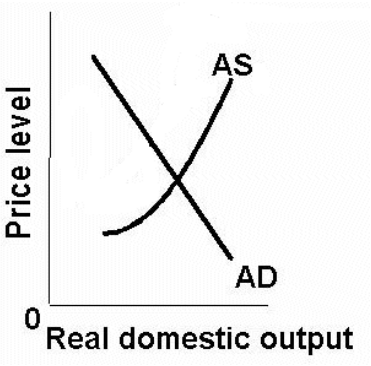
Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]

19. Assume that there is an **international agreement to make businesses reduce pollution**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

Unemployment _____

Price Level _____

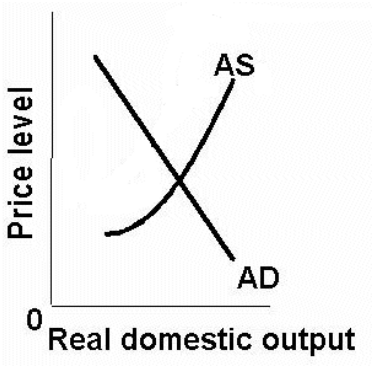
Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]

20. Assume that there is an **more competition due to fewer trade restrictions**

Which determinant? _____
Δ AD or Δ AS?
↑ or ↓ ?



What happens to:

Real GDP _____

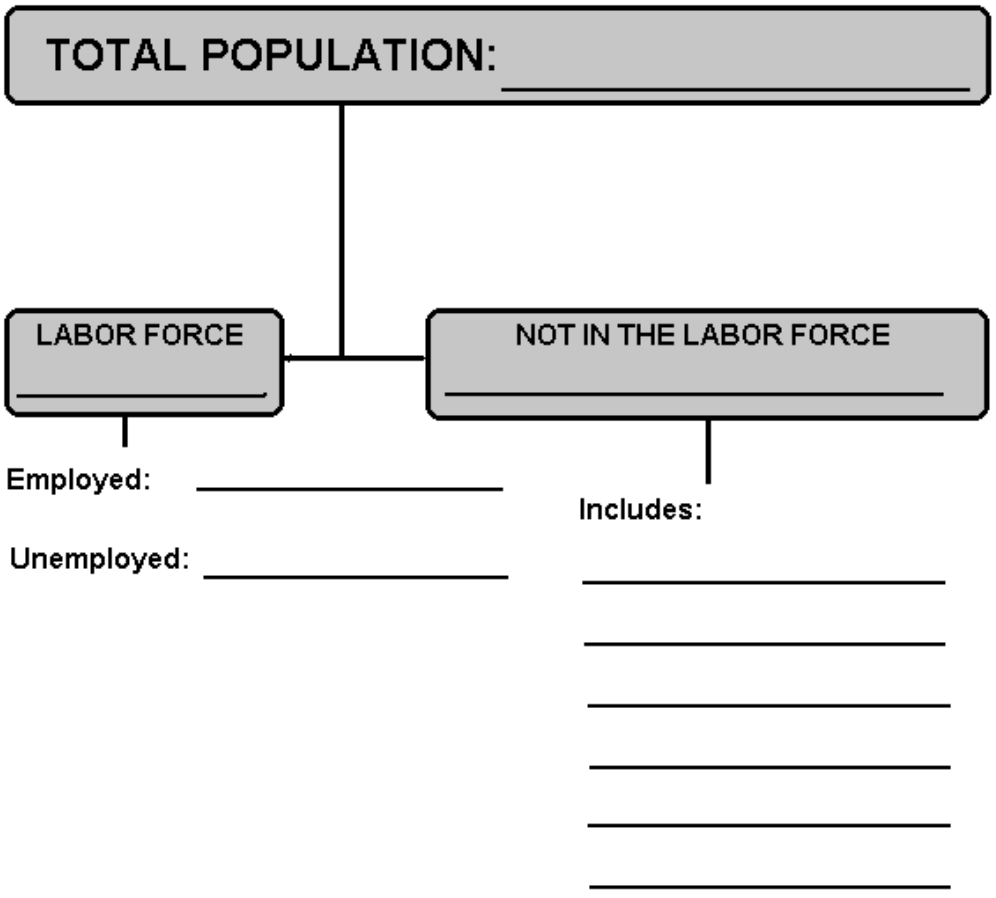
Unemployment _____

Price Level _____

Inflation _____

Economic Growth _____

[Δ GDP or Δ potential GDP ?]



Use the data above to calculate the Unemployment Rate

In the table below are statistics showing the labor force and total employment during year 1 and year 5. Make the computations necessary to complete the table. (Number of persons is in thousands.)

	Year 1	**Year 5**
Labor force	95,450	108,250
Employed	90,325	100,830
Unemployed	_____	_____
Unemployment rate	_____	_____

(a) How is it possible that *both* employment and unemployment increased?

(b) Would you say that year 5 was a year of full employment?

(c) Why is the task of maintaining full employment over the years more than just a problem of finding jobs for those who happen to be unemployed at any given time?

Use the following data to calculate:
(a) the size of the labor force and
(b) the official unemployment rate.

Total population **1,500**;
population under age 16 and institutionalized, **360**;
not in labor force, **450**;
unemployed, **69**;
workers with part-time jobs who are looking for full-time jobs, **30**.

What are two criticisms of the unemployment rate? How do these criticisms relate to the overstating or understating of the unemployment rate?

QUICK QUIZ - What Is Full Employment?

1. Kevin has lost his job in an automobile plant because of the use of robots for welding on the assembly line. Kevin plans to go to technical school to learn how to repair microcomputers. The type of unemployment Kevin is faced with is:

- **A.** cyclical.
- **B.** frictional.
- **C.** structural.
- **D.** natural.

2. At the full-employment unemployment rate there is only:

- **A.** cyclical and frictional unemployment.
- **B.** frictional and structural unemployment.
- **C.** demand-deficient unemployment.
- **D.** "discouraged workers" unemployment.

3. The full-employment rate of unemployment is also called the:

- **A.** potential rate of unemployment.
- **B.** cyclical rate of unemployment.
- **C.** frictional rate of unemployment.
- **D.** natural rate of unemployment.

4. One reason why economists argue that the full-employment unemployment rate was higher in the 1980s than in the 1960s is that:

- **A.** smaller numbers of women and young workers entered the labor force in the 1980s.
- **B.** larger numbers of white male workers have entered the labor force in the 1980s.
- **C.** unemployment compensation was increased in terms of the number of workers covered and the size of benefits over this time period.
- **D.** substantial decreases occurred in the minimum wage over this time period.

QUICK QUIZ - What Is Unemployment?

1. A nation has a population of 260 million people. Of these, 50 million are retired, in the military, or in institutions. There are 188 million who are employed and 12 million who are unemployed. What is the unemployment rate?

- **A.** 4 percent
- **B.** 6 percent
- **C.** 9 percent
- **D.** 27 percent

2. In calculating the unemployment rate, "discouraged" workers who are not actively seeking employment are:

- **A.** excluded.
- **B.** included.
- **C.** treated the same as part-time workers.
- **D.** used to determine the size of the labor force.

3. In calculating the unemployment rate, part-time workers are:

- **A.** counted as unemployed.
- **B.** counted as employed.
- **C.** used to determine the size of the labor force, but not the unemployment rate.
- **D.** treated the same as "discouraged" workers who are not actively seeking employment.

4. Official unemployment rate statistics may:

- **A.** overstate the amount of unemployment by including part-time workers in the calculations.
- **B.** understate the amount of unemployment by excluding part-time workers in the calculations.
- **C.** overstate the amount of unemployment because of the presence of "discouraged" workers who are not actively seeking employment.
- **D.** understate the amount of unemployment because of the presence of "discouraged" workers who are not actively seeking employment.

Chapter 7 REVIEW

1. Which of the following are included and which are excluded in calculating this year's GDP?

(a) A monthly scholarship check received by an economics student
[included or excluded? (circle one)]

(b) The purchase of a new truck by a trucking company
[included or excluded? (circle one)]

(c) Government purchase of missiles from a private business
[included or excluded? (circle one)]

(d) The purchase of a used tractor by a farmer
[included or excluded? (circle one)]

(e) The value of the purchase of shares of Microsoft by an individual
[included or excluded? (circle one)]

(f) Social Security checks received by a retired person
[included or excluded? (circle one)]

(g) An increase in business inventories
[included or excluded? (circle one)]

(h) The income of a tax accountant working for a business
[included or excluded? (circle one)]

(i) Income received from interest on a corporate bond
[included or excluded? (circle one)]

(j) The cashing in of a U.S. savings bond
[included or excluded? (circle one)]

2. GDP is often used as a measure of Economic Well-Being in a country, but there are problems.

For each problem below state whether actual GDP figures UNDERSTATE or OVERSTATE actual economic well-being. "Understate" means that the GDP figures are too low compared to society's actual economic well-being. "Overstate" means that the GDP figures are too large compared to society's actual well-being.

1. non-market transactions are not included in GDP
Therefore does GDP UNDERSTATE or OVERSTATE society's actual economic well-being?

2. leisure increases the standard of living but it isn't counted
Therefore does GDP UNDERSTATE or OVERSTATE society's actual economic well-being?

3. improved product quality often isn't accounted for in GDP
Therefore does GDP UNDERSTATE or OVERSTATE society's actual economic well-being?

4. GDP does not account for the composition of output
Therefore does GDP UNDERSTATE or OVERSTATE society's actual economic well-being?

5.GDP does not account for the distribution of output
Therefore does GDP UNDERSTATE or OVERSTATE society's actual economic well-being?

6. increases in GDP may harm the environment
Therefore does GDP UNDERSTATE or OVERSTATE society's actual economic well-being?

7. the underground economy produces goods and services but they are not included in GDP
Therefore does GDP UNDERSTATE or OVERSTATE society's actual economic well-being?

8. GDP does not account for a possible future decline in output due to resource depletion.
Therefore does GDP UNDERSTATE or OVERSTATE society's actual economic well-being?

9. Noneconomic Sources of Well-Being like courtesy, crime reduction, etc., are not covered in GDP.
Therefore does GDP UNDERSTATE or OVERSTATE society's actual economic well-being?

10. We must use per capita GDP to compare the living standards of different countries.
Therefore does GDP UNDERSTATE or OVERSTATE society's actual economic well-being?

3. **Which country has a higher GDP, Switzerland or India? Which has a higher level of economic well-being?**

Switzerland:
GDP: $239.3 billion (2003)
Population: 7,450,867 (2003)
India:
GDP: $3.033 trillion (2003)
Population: 1,065,070,607 (2003)

4. **Below is a list of domestic output and national income figures for a given year. All figures are in billions. The ensuing questions ask you to determine the major national income measures by both the expenditure and income methods. Answers derived by each approach should be the same.**

a. Using the data below, determine GDP and NDP by the expenditure method.

b. Calculate National Income (NI).

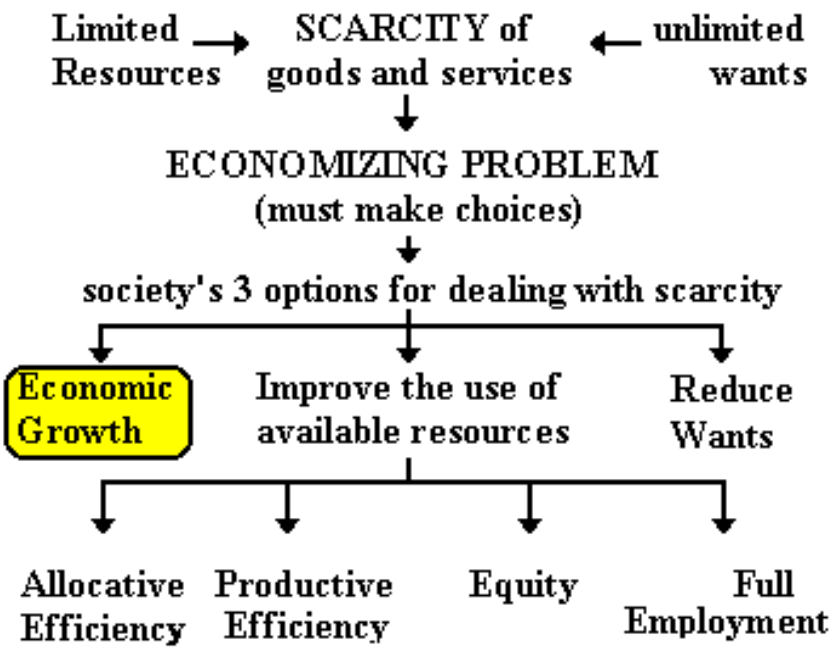
Personal consumption expenditures	245
Net foreign factor income earned	4
Transfer payments	12
Rents	14
Consumption of fixed capital =depreciation	27
Social security contributions	20
Interest	13
Proprietors' income	33
Net exports	11
Dividends (part of corporate profits)	16
Compensation of employees	223
Indirect business taxes	18
Undistributed corporate profits (part of profits	21
Personal taxes	26
Corporate income taxes (part of corporate profits)	19
Corporate profits	56
Government purchases	72
Net private domestic investment	33
Personal saving	20

5. The following data show nominal GDP and the appropriate price index for several years.

Compute real GDP for each year. In which year(s) was there a recession (decline in real GDP)? (All GDP figures are in billions.)

Year	Nominal GDP	Price level index	Real GDP
1	$117	120	_____
2	124	104	_____
3	143	85	_____
4	149	96	_____
5	178	112	_____
6	220	143	_____

1. Use the diagram below to answer this question.

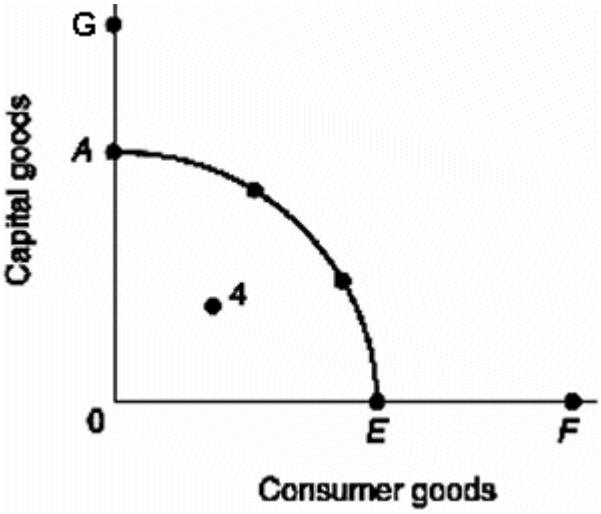


a. Define ECONOMIC GROWTH as shown in the diagram:

b. What CAUSES this type of economic growth?

c. Is this type of economic growth an increase in POTENTIAL GDP or ACHIEVING the potential?

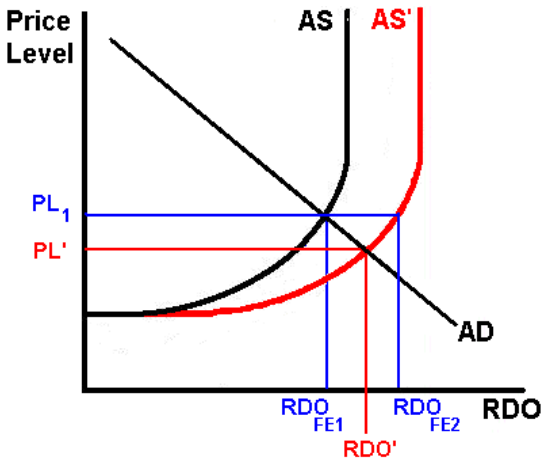
2. Use the diagram below to answer the questions.



a. If the economy's production possibilities curve is shown by curve *AE*, then draw in a new curve which indicates positive economic growth according to the 5 Es model.

b. Is this type of economic growth (1) an INCREASING the potential GDP or (2) achieving the POTENTIAL?

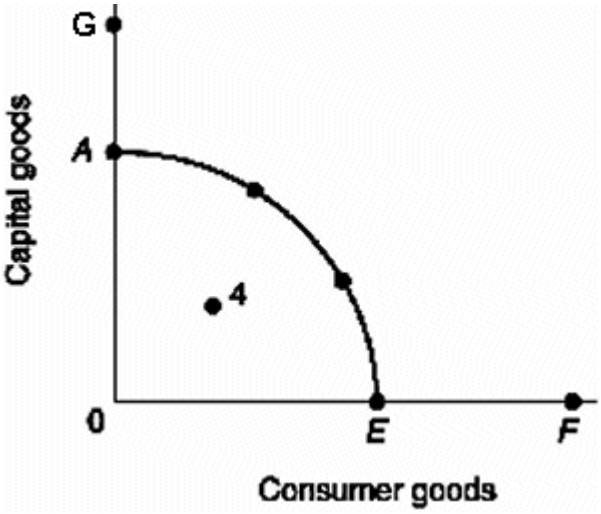
3. Use the diagram below to answer this question.



a. What would cause the AS curve to shift to the right?

b. Is this type of economic growth an INCREASE in potential GDP or ACHIEVING the potential?

4. Use the diagram below to answer this question.

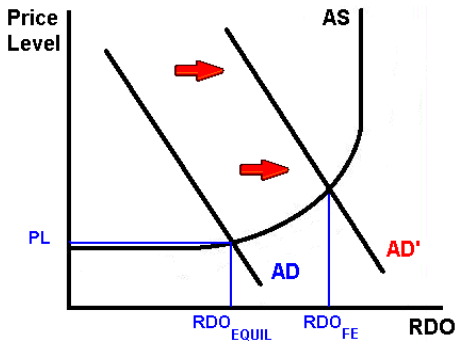


a. If the economy illustrated by production possibilities curve *AE* is producing at point 4, what economic problem does this represent for this economy?

b. Assume that the economy moves from point 4 to a point on the curve. Draw an arrow to show the change.

c. Is this type of economic growth an INCREASE in potential GDP or ACHIEVING the potential?

5. Use the diagram below to answer this question.



a. What would cause the AD curve to increase from AD to AD' as shown in the graph above?

b. Is this type of economic growth an INCREASE in potential GDP or ACHIEVING the potential?

6. What are the two (three) definitions of economic growth used in class? State which definition is an INCREASE in potential GDP and which is ACHIEVING the potential?

7. Suppose an economy's real GDP is $125 billion in year one and $130 billion in year two. What is the growth rate of its GDP?

From the textbook: Characteristics of Developing countries (DVCs):

Role of agriculture:

Literacy rates:

Unemployment:

population growth rate:

Type of exports:

Amount of capital equipment:

production technologies:

productivity:

Mark's List: Characteristics of Less Developed Countries (LDCs):

1. GDP per capita:
2. Population Growth rates:
3. Occupational Structure of the Labor Force:
4. Urbanization:
5. Consumption per capita:
6. Infrastructure:
7. Social Conditions

    literacy rates:

    life expectancy:

    health care:

    caloric intake:

    infant mortality:

The absolute income gap between rich and poor nations has been widening.

For example,

LDC: if per capita income is $400 per year and there is a 2% growth rate, by how much will income increase?

IAC: Where per capita income is $20,000 per and there is a 2% growth rate, by how much will income increase?

AID QUIZ

What fraction of the U. S. federal government's budget is spent on FOREIGN AID?

1%	**5%**	**10%**	**15%**	**20%**	**25%**

HOW MUCH AID DO WE GIVE as a % of our GDP (income)?

0.2%	**0.5%**	**1%**	**5%**	**20%**	**15%**

REVIEW: Indicators Of The Level Of Economic Development
NOTE: Do not confuse "indicator" with "cause"

INDICATOR	IAC / MDC	DVC /LDC
Role of agriculture	_____	_____
Level of industrialization:	_____	_____
Literacy rates:	_____	_____
Unemployment:	_____	_____
Population growth rate:	_____	_____
Type of exports:	_____	_____
Amount of capital equipment:	_____	_____
Production technologies:	_____	_____
Productivity:	_____	_____
GDP (income) per capita:	_____	_____
Structure of the Labor Force:	_____	_____
Urbanization:	_____	_____
Consumption per capita:	_____	_____
Infrastructure:	_____	_____
literacy rates:	_____	_____
life expectancy:	_____	_____
caloric intake:	_____	_____
infant mortality:	_____	_____
birth rates:	_____	_____