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**Unit 3 Essential Questions**

1. Define Gross Domestic Product - **The dollar value of all final goods and services produced within a nation’s borders in one year.**

2. Name 3 things that are excluded from GDP – **Intermediate goods, secondhand sales, nonmarket transactions, underground economy and financial transactions**

3. What is the equation for the output-expenditure model - **C+I+G+(X-M)**

4. Which type of spending accounts for the largest part of GDP – **Consumer spending**

5. If (X-M) is negative, the result is a – **Trade deficit**

1. Define inflation – **A rise in the general price level**

2. What is the consumer price index (CPI) - **Reports on price changes for about 80,000 items in 364 categories used by a typical household.**

3. What is current/nominal GDP - **GDP that has not been adjusted for inflation.**

4. What is real/constant GDP – **GDP that has been adjusted for inflation.**

5. How is GDP adjusted for inflation - **Current GDP ÷ Price Index × 100**

1. What are 2 ways to measure economic growth using GDP – **(1) Changes in real GDP from 1 year to another and (2) changes in real GDP per capita.**

2. Which of the 2 methods in the question above is a better measure of standard of living – **Real GDP per capita**

3. What is a business cycle - **The systematic ups and downs in real GDP.**

4. Name the 4 phases of the business cycle – **Expansion, peak, recession & trough**

5. When real GDP falls for a minimum of 6 months it is called what - **Recession**

1. How is the unemployment rate calculated - **# unemployed but looking ÷ civilian labor force × 100**

2. Who is included in the civilian labor force - **16 years and older who are currently working or looking for work.**

3. Name the 4 main types of unemployment – **Frictional unemployment, structural unemployment, cyclical unemployment & seasonal unemployment**

4. Who is a discouraged worker - **People who have become frustrated with looking for a job and quit looking.**

5. What is the estimate of unemployment when the economy is at full employment – **About 4.5%**

1. How is the inflation rate calculated - **∆ in price index ÷ beginning price index × 100**

2. What are the 2 types of inflation called – **Demand-pull inflation & Cost-push inflation**

3. Name 1 winner and 1 loser from inflation – **Winners: flexible income & Borrowers / Losers – Fixed income, savers & lenders**

4. Name the 4 parts of the Federal Reserve – **Board of Governors, Advisory council, federal open market committee & district banks (12)**

5. What is Monetary Policy - **The expansion or contraction of the money supply in order to influence the cost and availability of credit which is the interest rate.**

1. What is a fractional reserve system - **A system that requires banks and other depository institutions to keep a fraction of their deposits in the form of legal reserves**

2. When would the Fed use an easy money policy, or a tight money policy – **Easy money policy is used during a recession and & tight money policy is used during an expansion, when inflation is high**

3. What are the 3 tools the Fed uses in monetary policy – **Reserve requirement, Open market operations and Discount rate**

4. Which tool is the most popular - **Open market operations**

5. What would the Fed do with its 3 tools when fighting recession – **Lower the reserve requirement, buy bonds, lower the discount rate**

1. What is aggregate supply - **The total value of goods and services that all firms would produce in a specific period of time at various price levels.**

2. Name 3 factors that could shift the aggregate supply curve **- Costs of inputs, productivity, technology, taxes, subsidies, government regulations & number of sellers**

3. What is aggregate demand - **The total quantity of goods and services demanded at different price levels.**

4. Name 3 factors that could shift the aggregate demand curve **- consumer wealth, taxes, expectations, interest rates, exchange rates & incomes**

5. Where does macroeconomic equilibrium occur - **This represents the level of real GDP consistent with a given price level, as determined by the intersection of the AS and AD curves.**

1. What is fiscal policy? **The federal government’s attempts to stabilize the economy by taxing and spending decisions.**

2. What would be the appropriate fiscal policy when fighting recession - **Lower taxes & increase spending**

3. Who carries out fiscal policy - **Congress**

4. What is deficit spending - **When government spending is in excess of revenues collected for a given year.**

5. What is the federal debt - **The total amount borrowed from investors to finance the government’s deficit spending.**