**Economics**

**Unit 3- Macroeconomics Test Review - Key**

1. What are the 4 stages of the business cycle? Define each and know what they look like on a graph – **Expansion, Peak, Recession, Trough**
2. What is the difference between GDP and Real GDP – **Real GDP has been adjusted for inflation**
3. What does monetary policy influence/do – **The supply of money & availability of credit (interest rates)**
4. How does the Federal Reserve influence economic activity – **3 tools: Open market operation, Discount rate, Reserve requirements**
5. What is the Consumer Price Index – **Index of price levels of 80,000 consumer good items**
6. What does the Consumer Price Index show us - **Inflation**
7. What are the 4 types of unemployment we studied? Define each one – **Frictional = workers who are in between jobs, structural = when a fundamental change in the economy reducing the demand for workers, cyclical = unemployment related to swings in the economy & seasonal = unemployment related to changes in weather.**
8. What effect does the buying or selling of government securities on the open market by the Federal Reserve have on the money supply and aggregate demand – **Buying bonds = $ S ↑ & AD ↑ / Selling bonds = $ S ↓& AD ↓**
9. What is Gross Domestic Product – **The dollar value of all final goods and services produced within a nation’s borders in one year.**
10. What is a cost of living adjustment in a worker’s contract – **COLA is extra money in your paycheck to offset inflation**
11. Who are hurt most by inflation, borrowers or savers - **Savers**
12. What would be the best fiscal policy to get people and businesses to spend their money – **Lower taxes**
13. What is a trade surplus – **X > M**
14. What is a trade deficit - **X < M**
15. What is a budget deficit – **Revenue < Expenditures**
16. What is a budget surplus – **Revenue > Expenditures**
17. What is a balanced budget **– Revenue = Expenditures**
18. How is the Federal Reserve organized – **BOG → FOMC → DB → MB**
19. What causes the Aggregate Demand curve to shift – **Consumer wealth, taxes, expectations, interest rates, exchange rates & incomes**
20. What is the relationship between the national debt and the government deficit – **Deficits added together = Debt**
21. What is the unemployment rate - **The number of unemployed people looking for work ÷ by the total number of persons in the civilian labor force.**
22. How is the unemployment rate calculated - **# unemployed but looking ÷ civilian labor force × 100**
23. What is Macroeconomics – **The study of economics as a whole**
24. Who benefits most from inflation – **Borrowers & people w/ flexible incomes**
25. How do you calculate GDP per capita – **GDP ÷ population**
26. What is the Misery Index – **Sum of unemployment rate & inflation**
27. What causes the Aggregate Supply curve to shift – **Cost of inputs, productivity, technology, taxes, subsidies, gov’t regulation, # of sellers**
28. What is it called when real GDP declines for at least 6 months -**Recession**
29. What is a discouraged worker – **A member of the C.L.F. who is no longer seeking employment**
30. What is the best GDP numbers to use when measuring standing of living – **GDP per Capita**
31. What is expected inflation rate during a well performing economy – **1-3%**
32. What is the equation that makes up GDP - **C+I+G+(X-M)**
33. What is the lowest unemployment rate we can achieve with growing economy and with resources being used as efficiently as possible – **4.5%**
34. Who controls Fiscal Policy - **Congress**
35. What is the first result of inflation – **Reduction of purchasing power**
36. What should the Fed do with its 3 tools to fight a recession **– Buy bonds (securities), ↓ discount rate & ↓ reserve requirements**
37. What is the Board of Governors – **7 member who administer the FED**
38. What is cost-push inflation – **When the coat of inputs ↑ and producers push the increase to consumers**
39. What is demand-pull inflation – **Demanding more than what can be produced, causing prices to be pulled up**
40. What happens to price level and real GDP if Aggregate Supply is decreased – **Price level ↓ & real GDP ↓**

**# of Questions for each concept on test**

Macroeconomics- 1

GDP defined- 1

GDP exclusions- 1

Output-Expenditure Model- 1

Net Exports- 1

Nominal vs. Real GDP- 1

Consumer price index defined- 1

What is CPI used for- 1

Economic growth and Standard of living- 1

GDP per capita- 1

Business cycles/phases- 3

Recession- 1

Unemployment rate- 1

Discouraged worker- 1

Types of unemployment- 2

Unemployment rate target- 1

Immediate result of inflation- 1

Types of inflation- 1

Inflation/winners and losers- 2

Monetary policy/defined- 1

Who does monetary policy- 1

Monetary policy/tools- 2

Fed organization- 2

Changes in AS- 2

Changes in AD- 2

Government budgets- 1

Fiscal policy- 2

Misery index- 1

Budget deficit vs. national debt- 1

COLA’s- 1