Macroeconomics Exam Guide

Price Level

Inflation Rate

Unemployment Rate – 8.1%

Real GDP – -6.2%

CPI – increased .4%

Types of Unemployment:

 -Seasonal – recurring and predictable, depending on the time of year

 -Frictional – transition of workers between jobs or a new job search

-Structural – caused by technological change or a decrease in the demand for the product or service provided by an employee

 -Cyclical – occurs when AD<AS, caused by business cycles (recessions, depressions etc.)

Unemployment Rate:

-Natural Unemployment Rate is the unemployment rate that would occur when cyclical unemployment is zero (unemployment rate = # unemployed/# in labor force)

-Okun’s Law: when GDP growth rates increase the unemployment rate decreases

Aggregate Demand is downward sloping because of:

-wealth effect – if there is an increase (decrease) in the price level then the purchasing power of financial assets decreases (increases), therefore decreasing (increasing) consumption, which decreases (increases) aggregate expenditures

-interest rate effect – if there is an increase (decrease) in the price level then the interest rates increase (decrease), decreasing (increasing) consumption, which decreases (increases) AE

Increase p 🡪 demand for money, supply of bonds increases, price of bonds decrease, increasing interest rate, decrease I and C, decreases AE

-international trade effect – if there is an increase (decrease) in the price level, then the price of domestic goods relative to foreign goods will increase (decrease), therefore decreasing (increasing) net exports and decreasing (increasing) AE

-ceteris paribus – anything that affects C, I, G, NX/AE

Short-run Aggregate Supply: (see HW 4 and handout)

-Is upward sloping because when the average price level increases (wages are fixed and ceteris paribus), business profits increase, and as profits rise, firms are willing to produce more output.

 -ceteris paribus variables:

 \*price of resources – if it increases, AS decreases

 \*expectations of future price level – if it is higher, AS decreases

 \*expectations of future GDP output – if it is…

 \*disasters – if one occurs, AS decreases

 \*LRAS ceteris paribus variables

Long-run Aggregate Supply: (see HW 4 and handout)

-Is vertical because there is no relationship between price-level changes and the quantity of output produced in the long run (workers re-negotiate wages) natural unemployment rate in the long run is 5%

-ceteris paribus variables:

 \*quantity of resources – if it increases, LRAS shifts right

 \*level of technology – if it increases, LRAS shifts right

 \*institutional arrangements

 \*quantity of capital

 \*quality of labor force

Keynesian Model: (see HW 5 and handout)

-the 45 degree line is the line on the consumption and disposable income graph that shows all points at which consumption is equal to disposable income; the actual consumption function is slightly less than disposable income

Fiscal Policies:

-financing of fiscal policies – government either borrows money, or they cut taxes with the idea that if people have more disposable income they are more likely to spend it

-unfortunately this does not happen

-Ricardian equivalence – the principle that government spending activities financed by taxation and financed by borrowing have the same effect on the economy

-increased government borrowing can crowd private borrowers out of the bond market so that investment falls