

Study Guide 3 – EC 103 – Macroeconomics

1. What do we mean by the marginal propensity to consume? What do we mean by the marginal propensity to save?
2. What do we mean by the simple multiplier? Be sure to understand the formula and how it is used.
3. Suppose the MPC is 0.8 and government increases expenditures increases by \$1,000,000, what is the eventual total impact on income?
4. What do we mean by the marginal propensity to consume? What do we mean by the marginal propensity to save?
5. What do we mean by cost-push inflation? What do we mean by demand-pull inflation? Show the effects of each using the AD-AS model.
 1. Using the AS-AD model, show the differences between monetary and fiscal policy responses to inflation and recession. What are the costs and benefits of each policy? What do we mean by the marginal propensity to consume? What do we mean by the marginal propensity to save?
 2. What do we mean by the simple multiplier? Be sure to understand the formula and how it is used.
 3. Suppose the MPC is 0.8 and government increases expenditures increases by \$1,000,000, what is the eventual total impact on income?
 4. What do we mean by cost-push inflation? What do we mean by demand-pull inflation? Show the effects of each using the AD-AS model.
 5. How could the FED address inflation caused by cost push factors. What are the benefits and costs of such a policy?
 6. How could the FED address inflation caused by demand pull factors? What are the benefits and costs of such a policy?
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7. What do we mean by discretionary fiscal policy?
8. What is an example of an automatic stabilizer? How do they work?
9. Define transfer payments. How do they work?
10. What are some reasons for the business cycle and inflation?
11. What do we mean by supply side economics? What is the Laffer curve?
12. What are the definitions of a government budget surplus and deficit? What is the structural deficit?
13. Be able to understand how the Government carries out fiscal policy.
14. Be able to understand how the Fed carries out monetary policy.

15. What do we mean by the federal funds rate?
16. What tools can the Fed use to increase or decrease the money supply.
17. What are the goals of the Fed?
18. What is the monetary transmission of a decrease in the federal funds rate?
19. How do the issues of ageing and health care affect the US economy?
20. Go over Study Guides 1 and 2.
21. Everything else.