

# Useful Macroeconomics

I. David Wheat

## Suggested Learning Activities after Chapter 3

**New terms to Explain:** *budget deficits and surpluses, capital equipment, consumer credit, consumption, domestic final sales, exchange rates, government purchases, investment, net exports, price controls, private sector, production capacity, real vs nominal, retained earnings, saving, savings, transfer payments, and workweek utilization.*

### **Discussion**

1. Describe what you found most interesting about the 1930-1950 period in this chapter.
2. Explain the economic policy goals established by the Employment Act of 1946.
3. Discuss the origin and significance of the President's Council of Economic Advisers.
4. Summarize in a few sentences the key points of President's Truman's introduction to the [1947 Economic Report of the President](#) (pp. vii – viii).
5. Explain the Keynesian view of using the government budget to stabilize the economy. Specifically, when are (a) budget deficits and (b) budget surpluses desirable?
6. Why would a tax cut be a good strategy to fight unemployment but not inflation?
7. Explain how a business policy to reduce excessive inventories could lead to higher unemployment and a decline in consumer spending.
8. Explain the *expenditure method* of measuring GDP.
9. Explain the difference between 'final' and 'intermediate' sales.
10. Explain why BEA's expenditure method of measuring GDP is consistent with this equation:  **$GDP - AD = \Delta inventories$** .
11. Compare the size of U.S. domestic spending shares of final goods and services.
12. Explain why government *transfer payments* are not counted in the measurement of GDP.
13. Suppose that nominal AD = \$12 trillion/year, and the price index = 120. What is real AD?
14. What happens to inventories when  $GDP > AD$ ? And when  $GDP < AD$ ?
15. What are the equations for real AD and real GDP at the top of Figure 3.8?
16. Use your own words to explain the cause-and-effect hypotheses in the Labor & Productivity sub-model displayed in Figure 3.8 (and listed on p. 64).
17. Explain what is meant by a 'mutual cause-and-effect' relationship between wages and prices in the Wage & Price sub-model in Figure 3.8.
18. Describe how the three Supply Side sub-models are dependent on each other.
19. Describe how the three Demand Side sub-models are similar.
20. Describe how the three Demand Side sub-models are dependent on each other.
21. What purposes does the Flow of Funds sub-model serve in *MacroLab Lite*?

### **Modeling**

22. Use the *MacroLab Lite* simulator to produce the results displayed in Figure 3.13. What relationships do you see between the three curves?