Useful Macroeconomics

I. David Wheat

Suggested Learning Activities after Chapter 8

__New terms to Explain__*: net lending, pay-as-you-go budget rule, Private Sector,* and *Taylor Rule.*

__Discussion__

1. Describe what you found most interesting about the 1990s in this chapter.
2. Explain the difference between a government budget deficit and government debt. Use numerical examples and stock/flow concepts to illustrate your explanation.
3. When spending is plotted on a time series graph and the slope of the spending curve is changing over time, how can that information be used to describe the growth rate of spending?
4. Explain why a slowdown in aggregate demand *usually* reduces inflation while raising unemployment.
5. When we think about government policies that affect the money supply, our first thoughts are usually about monetary policy conducted by the Federal Reserve Board. Give an example of how fiscal policy conducted by the White House can affect the money supply.
6. Explain the claim that loose fiscal policy and tight monetary policy were responsible for much of the economic growth – as well as adverse side effects – during the 1983-1990 period.
7. Explain the claim that moderate fiscal policy and moderate monetary policy were responsible for much of the economic growth – plus beneficial side effects – during the 1993-2000 period.
8. Compare the methods used by the Fed to meet its Fed funds rate target during the periods before and after 2008.
9. In simple, non-technical terms, explain what the *Taylor Rule* predicts about the way the Fed decides how to change the Fed funds rate.
10. Who is included and who is excluded from the *Private Sector,* as that term in used in ***UM***?
11. How is the money supply circulating in the U.S. economy increased by ... commercial banks? the central bank? the federal government? foreign tourists who shop while visiting the U.S.?
12. When the Private Sector borrows money from commercial banks, how does that affect the financial assets *and* liabilities of the PS and the banks?
13. If a household has a checking account at Bank A and the grocery store has a checking account at Bank B, what happens to the financial assets *and* liabilities of the household, Bank A, and Bank B when the household writes a check to pay for groceries?
14. What benefits do banks get from buying and selling government bonds?

__Modeling__

15. Explain how the Monetary Policy sub-model in ***UM*** Figure 8.9 reflects the *Taylor Rule.*
16. *Stay tuned.*