

# Useful Macroeconomics

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## Suggested Learning Activities after Chapter 7

**New terms to Explain:** *equation of exchange, supply-side economic theory, and velocity of money.*

### **Discussion**

1. Describe what you found most interesting about the 1980s in this chapter.
2. Explain how the responsibilities of the Federal Reserve Bank in New York and its President are different from the other eleven Federal Reserve district banks.
3. In your own words, explain how 'supply side' economic theorists in the 1980s predicted that a big cut in tax rates would increase government tax revenues.
4. In your opinion, why do American adults give Presidents the credit for bringing inflation down or the blame when inflation rises, instead of crediting or blaming the Federal Reserve Board?
5. In simple, non-technical language, describe how monetarists explain inflation and summarize their recommendation for how the Fed should conduct monetary policy. If you use numerical examples, be sure they are simple and easy to understand.

### **Modeling**

6. Using **UM** Figure 7.8, trace the path of a feedback loop that starts and ends at *real AD*, and includes these three variables along the loop: Capital, Labor Productivity, and Price Index. Draw the loop. Is it a positive or a negative loop? Explain your answer.
7. Re-draw the feedback loop you identified in activity #6 by adding *nominal income* and *nominal AD*, as suggested by **UM** Figure 7.10. Is it a positive or a negative loop? Explain your answer.
8. Using **UM** Figure 7.14, draw two feedback loops: (a) one that includes both *inflation* and *nominal AD*, and (b) another that includes both the *unemployment rate* and *nominal AD*. Are they negative or positive loops? Explain your answers.
9. In simple, non-technical language, explain the step-by-step process of creating the final nominal AD hypothesis (green, blue, and red structure) displayed in **UM** Figures 7.10 to 7.14.
10. Before attempting the modeling tasks below, review the modeling tasks for chapters 5 and 6.
11. Play with the [simulator for Tutorial 7](#). After getting acquainted, try a systematic approach:  
For all experiments:
  - (1) study all the graphs,
  - (2) don't clear the graphs until finished with all the runs for each experiment,
  - (3) make notes about what strikes you as surprising, interesting, puzzling.
  - (4) make notes about regularities – something becoming predictable before you run it.
  - (5) zoom in on the model to remind yourself about what's affecting what.
  1. Run the model with active  and inactive  Monetary Policy.  
Try different goals for inflation & unemployment.  
For other experiments below, keep monetary policy active.
  2. Run with different debt growth rates; e.g., 5%, 4%, 3%.
  3. Run with different interest rate effect; e.g., -.2, -.1, -.3
  4. Run with different goods & services share of credit: e.g., .5, .4, .3
  5. Run with different labor force growth rates; e.g., 1%, 0%, 2%

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