

Useful Macroeconomics

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Suggested Learning Activities after Chapter 2

New Terms to Explain: *aggregate demand, compound interest, disposable income, durable goods, fiscal policy, government bonds, graduated income tax, labor force, labor force participation rate, productivity, rate & ratio, real disposable income, and unemployment rate.*

Discussion

1. Describe what you found most interesting about the 1900-1930 period in this chapter.
2. Using evidence from both the 19th and 20th centuries, explain why the Federal Reserve Act created a decentralized central banking system and why that was problematic.
3. Explain why rising government bond prices result in a lower interest rate for those bonds, and [conversely](#).
4. Explain the hypothesis that inflation caused an increase in the labor force participation rate.
5. Explain what it means to say the Demand Side and the Supply Side of an economy are connected by feedback loops.
6. Describe the feedback process that ties together the Production & Sales sub-model and the Labor & Productivity sub-model.
7. Describe how the Wage & Price sub-model is affected by the Labor & Productivity sub-model.
8. Describe how the Wage & Price sub-model affects the Production & Sales sub-model.
9. Describe the feedback relationship between the Households and Government sub-models.
10. Describe the feedback relationship between the Households and business Firms sub-models.
11. Describe the feedback relationship between the Government and business Firms sub-models.
12. Explain to your 'Aunt Sally' (an intelligent woman from an earlier generation) what it means to simulate a computer model. She understands logical explanations, but she does not understand technical jargon.
13. In January 1948, the civilian labor force was about 60.1 million persons. In January 1988, the number was about 121.0 million. Use two methods to estimate the average annual growth rate of the labor force between 1948 and 1988. First, use the Rule of 70. Second, use a spreadsheet and this equation for the growth rate percentage:

$$100 * ((\text{final value} / \text{initial value})^{(1/\text{years})} - 1)$$

Compare and comment on your two estimates.

Modeling

14. Study [Tutorial 2](#) online. Use *Stella Online* to build the same model, as demonstrated in this [video](#). Create a graph to display your simulation results. When finished, compare your simple model with the Flow of Funds sub-model in Figure 3.11 of chapter 3. Describe the similarities you see.