

AP[®] Macro Unit 5: Consequences of Stabilization Policies

Topic 5.1- Fiscal and Monetary Policy in the Short Run

1. Use the chart to summarize how fiscal policy, monetary policy, and no policy can close negative and positive output gaps. Identify if the policy shifts AD or SRAS.

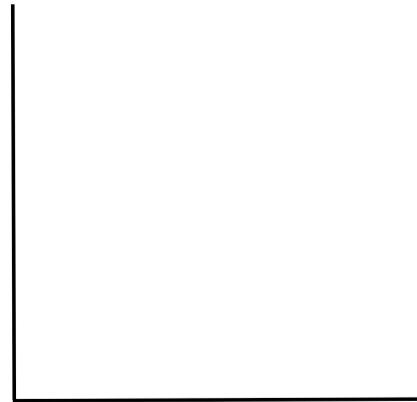
Policy	Negative Output Gap	Positive Output Gap
Fiscal Policy		
Monetary Policy		
No Policy		

2. What action could the central bank take to limit inflation caused by expansionary fiscal policy? Explain

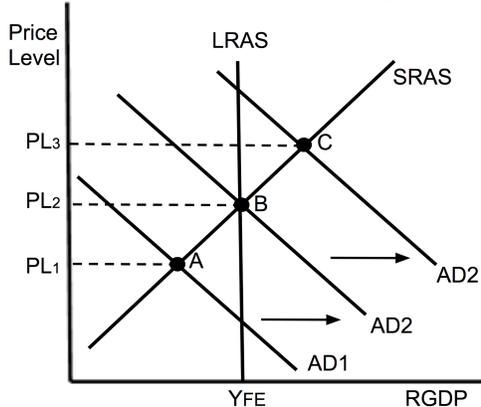
Topic 5.2- The Phillips Curve

1. Draw the short-run and long-run Phillips curve and plot the following values

Expected inflation rate	2%
Actual inflation rate	7%
Unemployment rate	3%
Natural Rate of Unemployment	5%



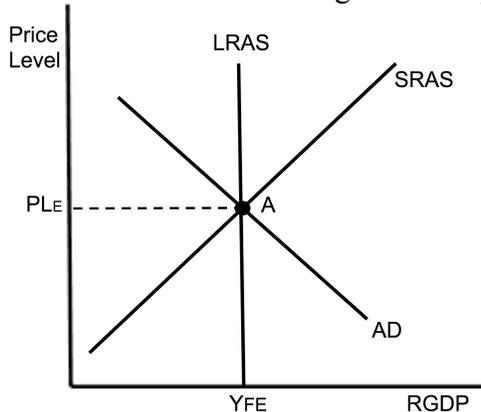
2. Draw the short-run and long-run Phillips curve. Label points A, B, and C based on the changes in AD



3. Shifts in _____ cause movements along the _____

- A=
- B=
- C=

4. Draw short-run and long-run Phillips curve. Show the result of a negative supply shock on both graphs



5. When the SRAS curve shifts to the _____, the _____ shifts to the _____.

6. What shifts the LRPC?

<p>Topic 5.3- Money Growth and Inflation</p> <ol style="list-style-type: none"> 1. What is the equation for the quantity theory of money? 2. Define the velocity of money 3. Assume the money supply is \$40 and it's used to purchase 10 products with a price of \$20 each. Calculate the velocity of money? 4. When the economy is at full employment, why will an increase in the money supply have no effect on real output in the long run? 	<p>Topic 5.4- Deficits and the National Debt</p> <ol style="list-style-type: none"> 1. What is a government budget deficit? 2. What is a government budget surplus? 3. Explain the difference between the budget deficit and the national debt. 4. How does the existence of a large national debt effect government spending in the future?
<p>Topic 5.5- Crowding Out</p> <ol style="list-style-type: none"> 1. Draw the loanable funds market and show what happens when the government deficit spends  <ol style="list-style-type: none"> 2. Use the example above to define crowding out 3. Crowding out ___ physical capital accumulation and ___ the rate of growth 	<p>Topic 5.6- Economic Growth</p> <ol style="list-style-type: none"> 1. Identify three things that influence productivity 2. Use the AD-AS model to show what happens in the long-run when lower interest rates lead to more investment  <p><i>True or False</i></p>
<p>Topic 5.7- Public Policy and Economic Growth</p> <ol style="list-style-type: none"> 1. Identify three public policies that promote economic growth. 2. Define supply-side fiscal policies 	<ol style="list-style-type: none"> 3. The aggregate production function shows that output per capita is positively related to both physical and human capital per capita 4. An increase in consumer spending leads to more economic growth in the long-run 5. When long-run aggregate supply shifts right the natural rate of unemployment increases 6. A sustained increase in productivity causes both the long run aggregate supply curve and production possibilities curve to shift right