

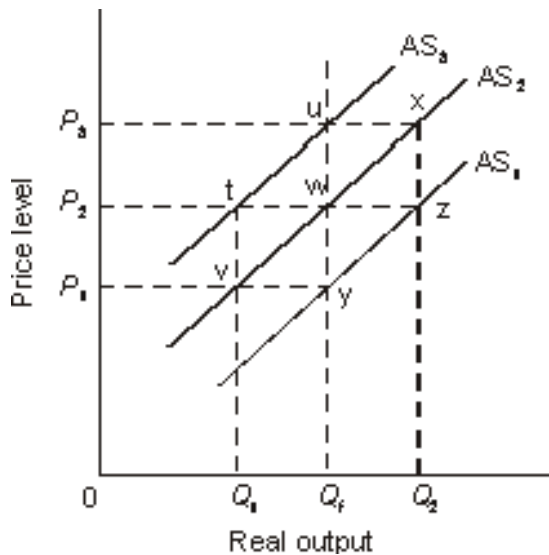
AP Macro Reading Questions Unit V Inflation, Unemployment and Stabilization Policies 1314

Instructions:

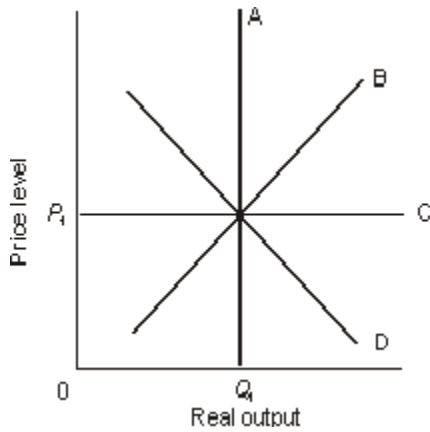
- a) **It is very important to have a record of the graphs included in this homework assignment. If you wish to print the entire file, that's fine; if not, you are required to draw the included graphs and write out the correct answer from the multiple choices given. Simply put, the graphs are required as part of the homework, whether drawn or copied. Required means credit lost for failure to comply.**
- b) **When answering a question with multiple components labeled with a,b,c, etc., write the letter at the beginning of your response. Please put each the response to each component on a separate line. This will make it much easier/quicker for me to grade.**

1. For fiscal policy 614:
 - a) What are the options for the federal government to implement expansionary fiscal policy?
 - b) What will this policy likely create?
2. (MA1f) Explain the difference between a budget deficit and the national debt. 614, etc.
3. Find a government web site that will give you up-to-the-minute statistics on the following. Print out the web site page with this information, but also write it down as part of the research questions assignment. Turn in the web page copy with this assignment.
 - a) Debt held by the public, the actual number and its definition:
 - b) Intragovernmental holdings:
 - c) Total public debt outstanding:
 - d) Which country holds the most U.S. debt, and what is this current dollar amount:
 - e) What is the current per capita share of the public debt?
 - f) According to the text's author, how can the citizen-owned public debt be both a positive and a negative for Americans? 627
4. What type of inflation is controlled by a contractionary fiscal policy? 615
5. Explain how a built-in stabilizer works. 618
6. (PF3b) Define the following terms. Use the text book's glossary for these.
 - a) Progressive taxes:
 - b) Proportional taxes:
 - c) Regressive taxes:
7. PF3c Explain how an increase in the sales tax would affect people paying the following types of taxes. (Hint: The regular Econ book might be a better resource than yours, or even the Internet.)
 - a) Progressive:
 - b) Proportional:
 - c) Regressive:
8. What is the impact of the interest payments on the national debt on individuals? 628
9. Which of the following is correct about the impact of demand-pull inflation on the extended AD-AS model? Explain your answer using the short run and long run results. 720-1
 - A. A decrease in aggregate demand that eventually increases nominal wages and causes a decrease in the short-run aggregate supply curve
 - B. An increase in aggregate demand that eventually increases nominal wages and causes an increase in the short-run aggregate supply curve
 - C. An increase in aggregate demand that eventually increases nominal wages and causes a decrease in the short-run aggregate supply curve
 - D. An increase in aggregate demand that eventually decreases nominal wages and causes a decrease in the short-run aggregate supply curve

10. In the figure below, if drawn, the long-run aggregate supply curve would include points: 721 W,U,Y



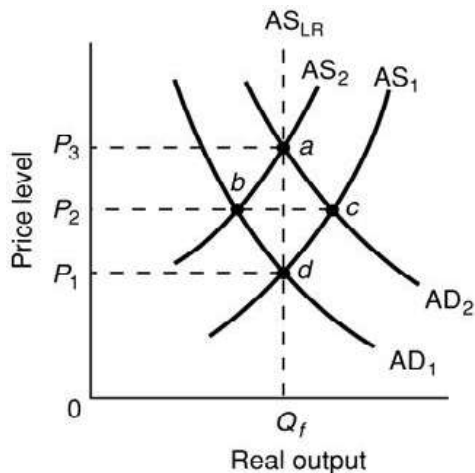
11. Government can push the unemployment rate below the natural rate only by:
- A. instituting supply-side economic policies.
 - B. producing a higher rate of inflation than people expect.
 - C. balancing the federal budget.
 - D. achieving zero inflation.
12. In the extended aggregate demand-aggregate supply model:
- A. long-run equilibrium occurs wherever the aggregate demand curve intersects the short-run aggregate supply curve.
 - B. the long-run aggregate supply curve is horizontal.
 - C. the level of real output is the same in the long run regardless of the location of the aggregate demand curve.
 - D. the short-run aggregate supply curve is downsloping.
13. If government uses fiscal policy to restrain cost-push inflation, we can expect what to happen, and why?
- A. the unemployment rate to rise.
 - B. the unemployment rate to fall.
 - C. the aggregate demand curve to shift rightward.
 - D. tax-rate declines and increases in government spending.
14. The:
- A. short-run aggregate supply curve is downward sloping.
 - B. short-run aggregate supply curve is vertical.
 - C. long-run aggregate supply curve is vertical.
 - D. long-run aggregate supply curve is upsloping.



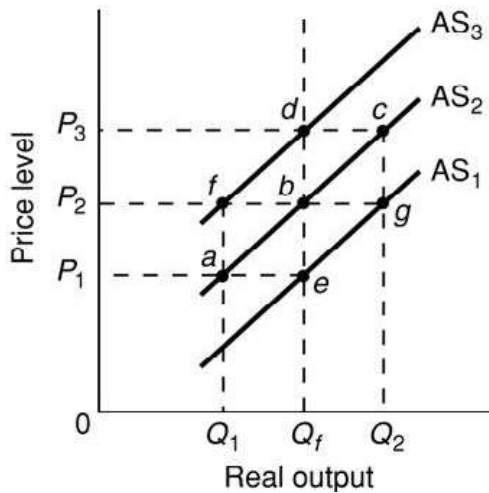
15. Refer to the above diagram. If the price level rises above P_1 because of an increase in aggregate demand, the:
- A. economy will move up along curve B and output will temporarily increase.
 - B. long-run aggregate supply curve C will shift upward.
 - C. short-run aggregate supply curve B will automatically shift to the right.
 - D. economy's output first will decline, then increase, and finally return to Q_1 .



16. Refer to the above diagram for a specific economy. An increase in aggregate demand will do what? Include a brief written explanation and also show why on the diagram. (By the way, what is this curve called?)
- A. shift this curve to the right.
 - B. shift this curve to the left.
 - C. move this economy southeast along the curve.
 - D. move this economy northwest along the curve.

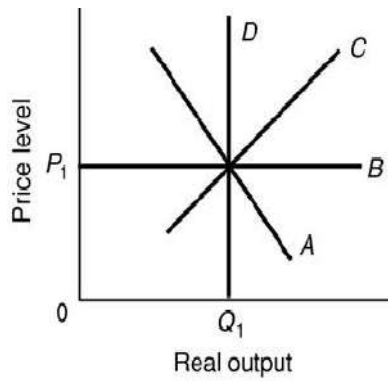


17. Refer to the above diagram. The initial aggregate demand curve is AD1 and the initial aggregate supply curve is AS1. Assuming no change in aggregate demand, the long-run response to a recession caused by cost-push inflation is best depicted as a:
- move from *a* to *d* along the long-run aggregate supply curve.
 - rightward shift of the aggregate supply curve from AS2 to AS1.
 - move from *a* to *c* to *d*.
 - leftward shift of the aggregate supply curve from AS1 to AS2.



18. Refer to the above diagram. Assume that nominal wages initially are set on the basis of the price level P_2 and that the economy initially is operating at its full-employment level of output Q_f . In terms of this diagram, the long-run aggregate supply curve:
- is AS2.
 - is a vertical line extending from Q_f upward through *e*, *b*, and *d*.
 - may be either AS1, AS2, or AS3 depending on whether the price level is P_1 , P_2 , or P_3 .
 - is a horizontal line extending from P_2 rightward through *f*, *b*, and *g*.

19. When the actual rate of inflation exceeds the expected rate:
- the unemployment rate will temporarily rise.
 - firms will experience rising profits and thus increase their employment.
 - the actual rate of inflation will fall.
 - nominal wages will decline.



20. Refer to the above diagram and assume that prices and wages are flexible both upward and downward in the economy. In the extended AD-AS model, which of the following would happen, and explain why. 722
- demand-pull inflation would involve a rightward shift of curve A, followed by a rightward shift of curve C.
 - cost-push inflation would involve a rightward shift of curve A, followed by a leftward shift of curve C.
 - recession would involve a leftward shift of curve A followed by a rightward shift of curve C.
 - recession would involve a rightward shift of curve D, followed by leftward shifts of curves A and C.
21. According to “mainstreamers,” macro instability is caused by ...? 738
22. In the monetarist view: 738/9
- This is the basic, overriding cause of macro instability:
 - List the specific causes of instability as proposed by monetarists:
 - Which of the two main economic policies are the monetarists blaming?
23. What is the view of the “new classical economists” when the economy drifts away from full-employment real GDP? 742
24. Describe what is meant by the velocity of money. 738
25. Explain the argument of “supply-siders.” Be thorough. 730

Think about it: Refer back to the three view of economics in Nos. 21-23. Which view do you think is best? Give a thorough, thoughtful answer.