

Economics Study Guide: Unit 3

SSEMA1 Illustrate the means by which economic activity is measured.

- a. Explain that overall levels of income, employment, and prices are determined by the spending and production decisions of households, businesses, government, and net exports.
- b. Define Gross Domestic Product (GDP), economic growth, unemployment, Consumer Price Index (CPI), inflation, stagflation, and aggregate supply and aggregate demand.
- c. Explain how economic growth, inflation, and unemployment are calculated.
- d. Identify structural, cyclical, and frictional unemployment.
- e. Define the stages of the business cycle, include peak, contraction, trough, recovery, expansion as well as recession and depression.
- f. Describe the difference between the national debt and government deficits.

Macroeconomics	Aggregate demand	Inflation	Unemployment rate
Leading economic indicators	Aggregate supply	Purchasing power	Civilian labor force
Economic growth	Business fluctuations	Deflation	(Labor force)
Gross Domestic Product	Business cycle	Stagflation	Cyclical unemployment
Net exports	Recession (Contraction)	Consumer Price Index	Structural unemployment
Depreciation	Depression	Market basket	Frictional unemployment
Net National Product	Trough	Base year	Seasonal unemployment
Disposable Personal Income	Expansion (Recovery)	Producer Price Index	Technological unemployment
National Income	Peak (Boom)		
Personal Income			
Transfer payments			
Current (Nominal) GDP			
Real GDP			
GDP per capita			

SSEMA2 – Explain the role and functions of the Federal Reserve System.

- a. Describe the organization of the Federal Reserve System.
- b. Define monetary policy.
- c. Describe how the Federal Reserve uses the tools of monetary policy to promote price stability, full employment, and economic growth.

Federal Reserve System (Fed) (pg. 407)	Fractional reserve system (pg. 415)
Monetary policy (pg. 415)	Prime rate (pg. 427)
Federal Open Market Committee (FOMC) (pg. 409)	Discount rate (pg. 422)
Board of Governors (pg. 408)	Easy-money policy (loose) (pg. 419)
District or Federal Reserve Banks (pg. 409)	Tight-money policy (pg. 419)
Member Banks (pg. 410)	Open market Operations (pg. 420)
Reserve requirement (pg. 419)	

SSEMA3 – Explain how the government uses fiscal policy to promote price stability, full employment, and economic growth.

- a. Define fiscal policy.
- b. Explain the government’s taxing and spending decisions - be able to explain the government’s taxing and spending decisions used to promote price stability, full employment, and economic growth.

Fiscal Policy Supply-side policies Demand-side policies Multiplier Council of Economic Advisors (pg. 460)	Fiscal year Budget deficit National debt Budget surplus
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$GDP = C + I + G + (X - M)$
$NI = \text{Wages} + \text{Rents} + \text{Interest} + \text{Profits}$
$\frac{\text{CPI Year 2}}{\text{CPI Year 1}} \times 100$
$\frac{\text{Number of Unemployed} \times 100}{\text{Labor Force (employed + unemployed)}}$
$\frac{\text{Year 2 SPI} - \text{Year 1 SPI}}{\text{Year 1 SPI}} \times 100$
$\frac{(\text{Real GDP in Year 2} - \text{Real GDP in Year 1})}{\text{Real GDP in Year 1}} \times 100$
$\frac{(\text{CPI in Year 2} - \text{CPI in Year 1})}{\text{CPI in Year 1}} \times 100$