**MACROECONOMICS**

**Measuring National Income**

**Circular flow of income:**

Complete the diagram below by labeling all the lines and the empty boxes:



**National income is measured by:**

1. The output method:

2. The income method:

3. The expenditure method:

Gross national product = GDP + ………………………………………… What is the difference between **real** and **nominal** GDP?

What does GDP ‘per capita’ mean?

What are some of the limitations of using GDP as a measure of a country’s standard of living?

**Aggregate Demand**

**AD = C + I + G + (X-M)**

For each of these, define and explain it: C:

I:

G:

(X -M):

For each of these, suggest reasons why it would increase/decrease: C:

I:

G:

(X-M):

Demand-Side Policies

**Fiscal Policy:**

What is an ‘expansionary’ fiscal policy?

What is a ‘contractionary’ fiscal policy?

**Monetary Policy:**

Two methods of monetary policy are:

1.

2.

**Aggregate Supply**

**What is aggregate supply?**

**In the space below, draw a short-run aggregate supply curve:**

**What factors might cause AS to increase or decrease?**

**Draw a diagram below illustrating the Keynesian Long-run Aggregate**

**Supply Curve, and explain what it means:**

**Draw a diagram below illustrating the Neo-Classical Long-run Aggregate**

**Supply Curve, and explain what it means:**

**For both long-run diagrams above, using a different color, illustrate an increase in economic growth**

**What supply-side policies could a government use to shift the AS curve to the right?**



**Macroeconomic Equilibrium**

**Draw a diagram illustrating long-run equilibrium from a Keynesian perspective:**

- Illustrate an increase in AD on your diagram

- What happens to the price level as AD increases?

- Explain why this occurs below:

**Draw a diagram illustrating long-run equilibrium from a Neo-Classical perspective:**

- Illustrate an increase in AD on your diagram

- What happens to the price level as AD increases?

- Explain why this occurs below:

**Draw two diagrams below illustrating an increase in LRAS- a Keynesian diagram and a Neo-Classical diagram. For each one, explain what the effects of this shift have been on the economy as a whole.**

**The Business Cycle:**



What are the following points on the above diagram?:

1. A:

2. D:

3. Straight line:

4. A-B:

5. C-D:

**Inflation and Deflation**

**Define the following terms:**

- inflation:

- deflation:

- disinflation:

**What are the negative side-effects of inflation?**



**Why is deflation bad?**

**Identify and explain the two causes of inflation:**

**1.**

**2.**

**How does an increase in the supply of money cause inflation?**

**How can the government control inflation?**

**Unemployment**

**What is unemployment?**

**What are the costs of unemployment to:**

- unemployed people:

- society:

- the economy:

**Complete the two columns below:**

**Flows IN:**

**Flows OUT:**

**LABOR**

**FORCE**

**Describe each of the following types of unemployment:**

Real-wage/Classical unemployment:

Demand-deficient/Cyclical unemployment: Equilibrium/Natural unemployment: Frictional unemployment:

Seasonal unemployment:

Structural unemployment:

**What solutions could the government put in place to reduce unemployment?**

(Note that some of these will be for specific types of unemployment)



**‘Crowding out’** is a problem when the government run a budget deficit in an attempt to increase AD. What is it and why is it a problem?

**Distribution of Income**

**Define the following key terms:**

Progressive tax: Regressive tax: Proportional tax: Transfer payments: Minimum wage:

**What does it mean when a tax is progressive?**

**How can you criticize the idea of income redistribution?**

**The Lorenz curve** is used to measure:

Household income data is split into:

On this graph, describe each line:

100

**Cumulative % of Income**

80

60

40

20

0

0 20 40 60 80 100

**Cumulative % of Households**

What is the **Gini index**?

How is it measured?