APE GR: 16 The Multiplier & Investment Spending

Define:

1. MPC
2. MPS
3. Planned investment spending
4. Retained Earnings

Questions:
5. Are producers in an economy willing and able to sell more when aggregate prices in an economy rise? Why/why not?

6. What factors, other than income level, do you think would impact MPC for a person, and for an economy as a whole?

7. Explain the multiplier effect through four rounds using your own original and creative example – begin with the following:

A bill to impose regulations on gas drilling in PA has been defeated. A dozen firms have announced plans to build new wells and pipelines in Western PA totaling $1 billion.

8. Why won’t this increase in I mentioned in question 5 continue to multiply until the economy is totally amazingly awesome?

9. A profitable company need not worry about interest rates when it is planning for current investment projects. To what extent is this true?

10. How does production capacity and expectations impact I?

11. What does rising and falling inventory investments indicate?

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­­­­­­­­­­­­­­­­­­­­­­­­­Define:

1. Monetary Policy
2. Fiscal Policy

Questions:

1. Why doesn’t the substitution effect impact the shape of the AD curve?
2. Carefully explain the two factors that do impact the shape of AD.
3. Explain each of the factors that can shift the AD curve.

APE GR:

­­­­­­­­­­­­­­­­­­­­­­­­­Define:

1. SRAS (Short Run AS)
2. LRAS
3. Sticky Wages

Questions:

1. Why are wages sticky, while most other process in an economy are not?
2. In your own words, what does the SRAS curve represent?
3. When the price level rises, ceteris paribus, why do firms experience higher profit levels per item produced (in the SR)? Why do firms experience decreases in profits when the price level drops?
4. Describe each factor that affect SRAS.

LONG RUN

1. Why is the LRAS perfectly vertical?
2. What causes LRAS to shift outward or inward?

SR – LR

1. Using a graph that show SR & LR AS, show and explain how output can/will return to the LR quantity.

Questions:

1. Why are wages sticky, while most other prices in an economy are not?

APE GR: 20

Questions:

1. What are the basic arguments for and against active stabilization policy?
2. Prior to WWII, the US economy experienced greater economic instability than after the war. Why?
3. Has stabilization policy since the 1960s been effective at stabilizing the economy? Explain.
4. Which type of shock is most problematic for policymakers interested in stabilization? Show and explain.
5. Using Fig 20.1, explain why US fiscal policy is a concern to many, despite the smaller part played by the US government overall.
6. In business news lately, it has been fairly common to hear people refer to ‘fiscal drag’ when considering the current lackluster state of the economy. What do you think they mean?
7. Imagine that the US economy went into a mild recession due to a cut in business inventory spending and soft consumer spending. Show and explain how expansionary fiscal policy could possibly create an inflationary gap, and further instability.