

Macroeconomics Unit 1: Basic Economics Concepts

Key Terms- Define the following:

1. Scarcity

Individuals, businesses, and governments have unlimited wants but limited resources.

2. Consumer Goods vs. Capital Goods *to produce thing*

Consumer goods- (ex: pizza) goods made for direct consumption

Capital goods- (ex: restaurant oven) goods made for indirect consumption. Goods that make consumer goods

3. Trade-offs

ALL possible options given up when you make a choice

4. Opportunity Cost

The ONE best option given up when you make a choice including the money, time, and forgone opportunities.

3 Economic Systems

1. Centrally Planned Economies

Economic system where the government owns the resources and decides what to make, how to make it, and who gets it. Total government control of the economy

2. Free-Market Economies (Capitalism)

Economic system where individual citizens own the resources and decides what to make, how to make it, and who gets it. Little or no government involvement in the economy

3. Mixed Economies

Almost all economies are a mixture of the above systems.

Production Possibilities Curve (Frontier)

Use the chart to create a PPC to the right.

	A	B	C	D	E
Hats	0	1	2	3	4
Shoes	30	29	25	15	0

Label the following three points on the graph:

X= Unemployment/Inefficiency

Y= Efficient

Z= Impossible given current resource

Shoes

30

25

20

15

10

5

0

Z= Impossible

X= Inefficient

Y= Efficient (on the curve)

Calculate the Opportunity Cost:

A→B: 1 Shoe

B→C: 4 Shoes

E→D: 1 Hat

C→A: 2 Hats

0

1

2

3

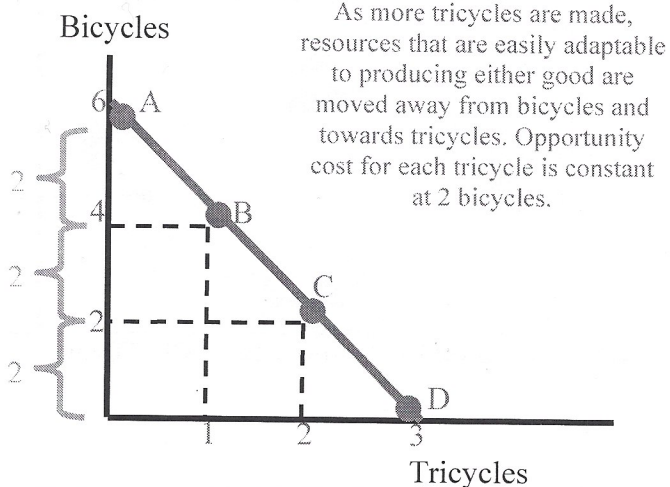
4

Hats

Constant Opportunity Cost

Why does this occur? Resources are easily adaptable between both products.

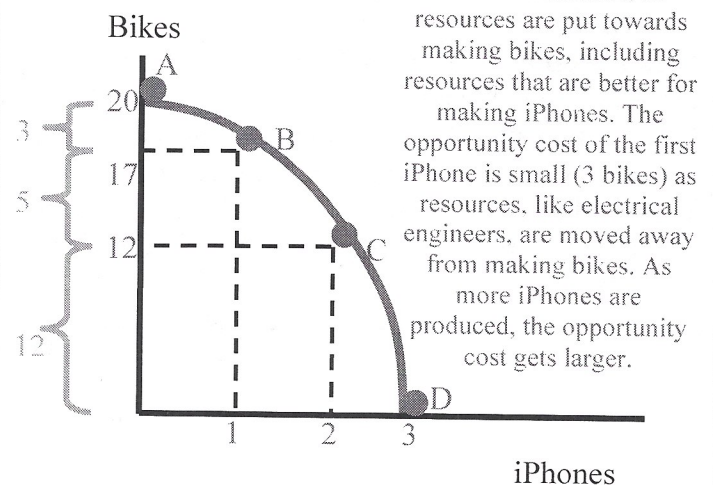
Draw the graph below



Increasing Opportunity Cost

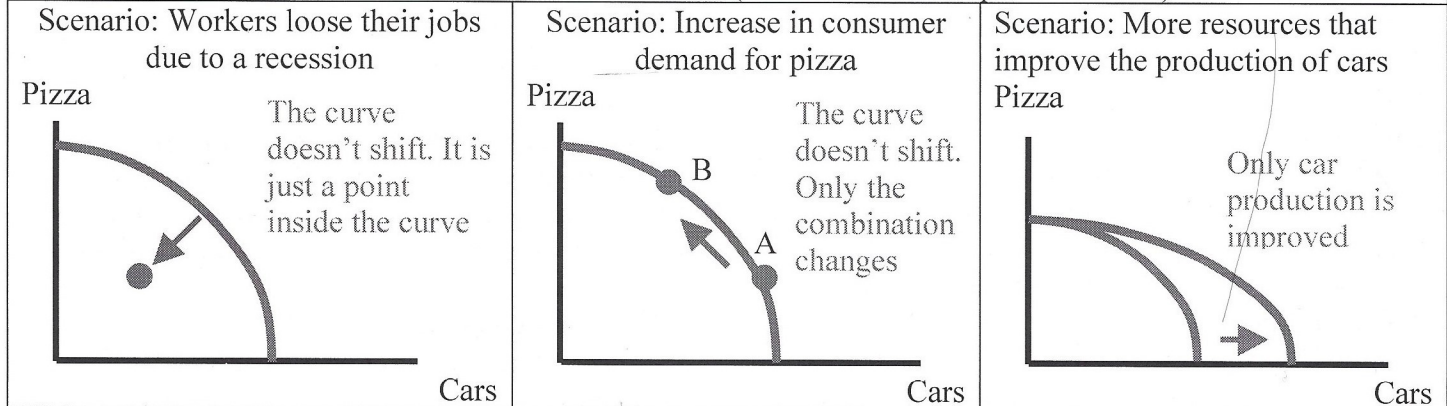
Why does this occur? Resources are not easily adaptable between both products

Draw the graph below



Key Terms	Shifting the PPC
Define Investment- Investment is business spending on capital (tools and machinery) that makes businesses more productive Define Capital Stock- Capital stock is the amount of capital businesses have. The more capital stock, the more output they can make	Identify the three shifters of the PPC 1. Change in resource quantity or quality 2. Change in Technology 3. Change in Trade (Doesn't change the amount they can produce, but it does change the amount they can consume)

Production Possibilities Practice (draw 3 PPCs with pizza and cars)



Absolute and Comparative Advantage

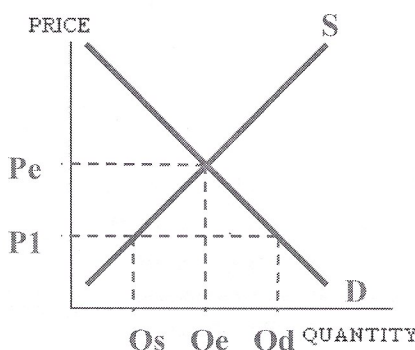
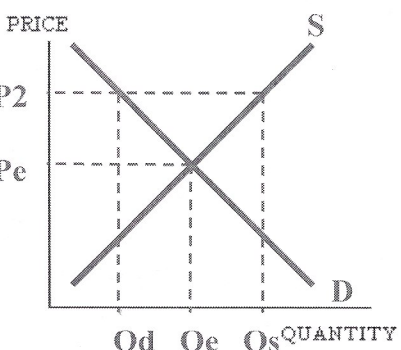
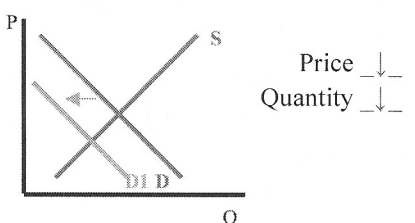
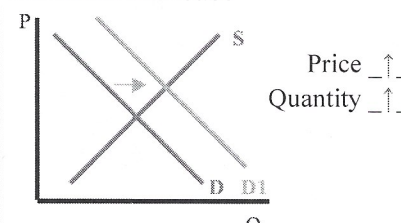
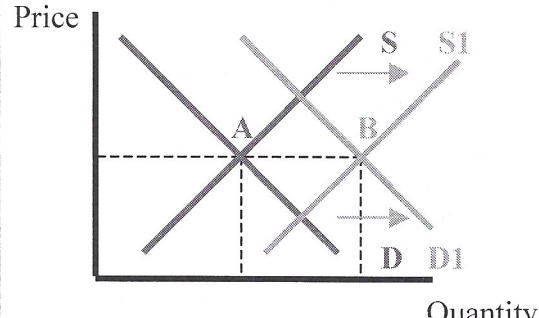
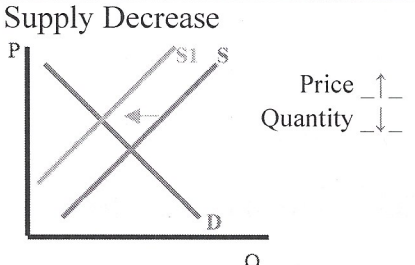
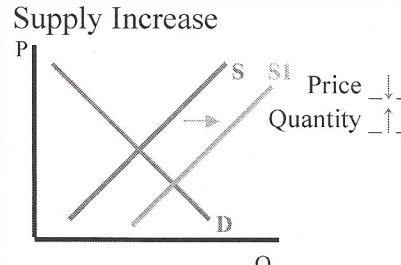
Output Questions	Input Questions																		
<p>The table shows the amount of sugar and cars each country can make with the same number of resources</p> <table><tr><th></th><th>Sugar (tons)</th><th>Cars</th></tr><tr><td>Cuba</td><td>40 (1S costs ¼ Car)</td><td>10 (1C costs 4 Sugar)</td></tr><tr><td>Mexico</td><td>50 (1S costs 2 Cars)</td><td>100 (1C costs ½ Sugar)</td></tr></table>		Sugar (tons)	Cars	Cuba	40 (1S costs ¼ Car)	10 (1C costs 4 Sugar)	Mexico	50 (1S costs 2 Cars)	100 (1C costs ½ Sugar)	<p>The table shows the number of hours it takes to produce a ton of sausage and a ton of computers</p> <table><tr><th></th><th>Sausage</th><th>Computers</th></tr><tr><td>Canada</td><td>2 (1S costs 1/3 comp)</td><td>6 (1C costs 3 sausg)</td></tr><tr><td>UK</td><td>10 (1S costs 1 comp)</td><td>10 (1C costs 1 sausg)</td></tr></table>		Sausage	Computers	Canada	2 (1S costs 1/3 comp)	6 (1C costs 3 sausg)	UK	10 (1S costs 1 comp)	10 (1C costs 1 sausg)
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UK	10 (1S costs 1 comp)	10 (1C costs 1 sausg)																	
<p>1. Which country has an absolute advantage in sugar? How about cars? Mexico/Mexico</p> <p>2. What is Cuba's opportunity cost for producing one car? 4 sugar</p> <p>3. Which country has a comparative advantage in cars? How about sugar? Mexico/Cuba</p> <p>4. For both countries to benefit from trade, how much sugar can be traded for each car? 1 Car for 1 Sugar (any number between 4 and ½)</p>	<p>1. Which country has an absolute advantage in sausage? How about computers? Canada/Canada</p> <p>2. What is Canada's opportunity cost for producing one computer? 3 sausage</p> <p>3. Which country has a comparative advantage in computers? How about sausage? UK/Canada</p> <p>4. For both countries to benefit from trade, how many sausages can be traded for each computer? 1 comp for 2 sausage (any number between 3 and 1)</p>																		

Circular Flow Matrix (Model)

<p>Product Market- Places where individuals buy goods and services from businesses</p> <p>Factor (Resource) Market- Places where businesses buy the factors (land, labor, capital) from individuals</p> <p>Factor Payments- Payments made by businesses. Rent for land, wages for labor, interest for capital</p> <p>Transfer Payments- Payments made by the government to meet a specific goal rather than pay for goods and services (ex: welfare)</p>	<p>Draw the Circular Flow Matrix</p>
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Demand		Supply	
The Law of Demand: Inverse relationship between price and quantity demanded		The Law of Supply: Direct relationship between price and quantity supplied	
$P \uparrow Q_d \text{ --- } \downarrow \text{ ---}$ $P \downarrow Q_d \text{ --- } \uparrow \text{ ---}$		$P \uparrow Q_s \text{ --- } \uparrow \text{ ---}$ $P \downarrow Q_s \text{ --- } \downarrow \text{ ---}$	
What is the different between a change in quantity demanded and a change in demand?			
A change in quantity demanded is movement along the curve due to a change in price. A change in demand is when the entire demand curve shifts left or right due to a change in one of the shifters			
Changes in Demand and Supply (Shifting the Curve)			
What changes demand? (5 Shifters of Demand)		What changes supply? (5 Shifters of Supply)	
1. Tastes and preferences 2. Number of consumers 3. Price of related goods- Substitutes and complements 4. Income 5. Future expectations		1. Prices/availability of inputs (resources) 2. Number of producers 3. Technology 4. Government action: taxes & subsidies 5. Expectations of future profit	
Substitutes: Price of A \uparrow Demand for B $\text{---} \uparrow \text{---}$ Price of A \downarrow Demand for B $\text{---} \downarrow \text{---}$		Normal Goods: Income \uparrow Demand $\text{---} \uparrow \text{---}$ Income \downarrow Demand $\text{---} \downarrow \text{---}$	
Complements: Price of A \uparrow Demand for B $\text{---} \downarrow \text{---}$ Price of A \downarrow Demand for B $\text{---} \uparrow \text{---}$		Inferior Goods: Income \uparrow Demand $\text{---} \downarrow \text{---}$ Income \downarrow Demand $\text{---} \uparrow \text{---}$	
Equilibrium and Disequilibrium		Government Involvement	
Draw a shortage 		Price Ceiling- Legal cap on prices designed to keep prices artificially low When binding, ceilings go <u>below</u> equilibrium and result in a <u>shortage</u> . Price Floor- Minimum legal price sellers can sell a product When binding, floors go <u>above</u> equilibrium and result in a <u>surplus</u> . Subsidy- Government payment to producers designed to encourage them to produce more	
Draw a surplus 			
Supply and Demand Practice		Double Shift Practice	
Demand Decrease 	Demand Increase 	If demand increases AND supply increases then price <u>indeterminate</u> and quantity <u>increases</u> Price 	
Supply Decrease 	Supply Increase 	Double Shift Rule: If TWO curves shift at the same time, EITHER price or quantity will be indeterminate.	

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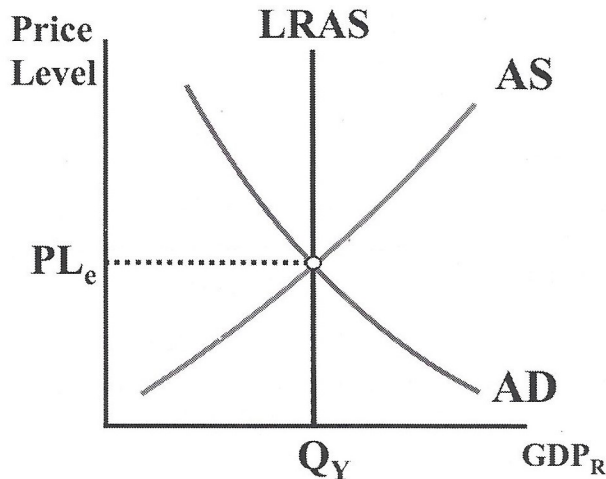
Consumer Price Index (CPI)	GDP Deflator																
<p>What is the CPI?</p> <p>CPI is an index number that shows how prices change over time for a fixed basket of consumer goods</p> <p>Consumer Price Index (CPI) Equation-</p> $\text{CPI} = \frac{\text{Price of market basket}}{\text{Price of market basket in base year}} \times 100$	<p>What is the GDP Deflator?</p> <p>The deflator is an index number that measures all prices and is used to convert nominal GDP into real GDP</p> <p>GDP Deflator Equation-</p> $\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$																
CPI Practice	GDP Deflator Practice																
<p>1. Assume the value of a market basket for a given year is \$550 and the same basket in the base year was \$500. Calculate the CPI. $\text{CPI} = 110$</p> <p>2. If the CPI for a given year is 90 then the change in prices between that year and the base year is <u>-10%</u></p> <p>3. Fill in the blanks in the chart below. Start with 2009 as the base year then recalculate with 2010 as the base year.</p> <table><tr><th>Year</th><th>Market Basket</th><th>Base Year 2009</th><th>Base Year 2010</th></tr><tr><td>2009</td><td>\$20</td><td>100</td><td>50</td></tr><tr><td>2010</td><td>\$40</td><td>200</td><td>100</td></tr><tr><td>2011</td><td>\$50</td><td>250</td><td>125</td></tr></table>	Year	Market Basket	Base Year 2009	Base Year 2010	2009	\$20	100	50	2010	\$40	200	100	2011	\$50	250	125	<p>1. The Nominal GDP is \$100 billion and the Real GDP is \$80 billion. Calculate the GDP deflator. 125 (prices are 25% higher since the base year)</p> <p>2. The Real GDP is \$100 billion and the GDP deflator is 200. Calculate the Nominal GDP. Nominal GDP = \$200 billion</p> <p>3. The Real GDP is \$200 billion and the GDP deflator is 120. Calculate the Nominal GDP. Nominal GDP = \$240 billion</p> <p>4. The Nominal GDP is \$300 billion and the GDP deflator is 150. Calculate the Real GDP. Real GDP = \$200 billion</p> <p>5. The Nominal GDP is \$100 billion and the GDP deflator is 125. Calculate the Real GDP. Real GDP = \$80 (same as question #1)</p>
Year	Market Basket	Base Year 2009	Base Year 2010														
2009	\$20	100	50														
2010	\$40	200	100														
2011	\$50	250	125														
Helped or Hurt by Unanticipated Inflation	Key Terms																
<p>Assume expected inflation is 2% but actual inflation turns out to be 5%. Who is helped and hurt by inflation?</p> <table><tr><th>Helped</th><th>Hurt</th></tr><tr><td>-Borrowers</td><td>-Lenders</td></tr><tr><td></td><td>-Savers</td></tr><tr><td></td><td>-People on fixed incomes</td></tr></table>	Helped	Hurt	-Borrowers	-Lenders		-Savers		-People on fixed incomes	<p>Define deflation-</p> <p>A decrease in the general price level. The opposite of inflation</p> <p>Define disinflation-</p> <p>A decrease in the rate of inflation. Prices are going up, but not as fast as before</p> <p>Define Velocity of Money-</p> <p>The velocity of money is the average times a dollar is spent and re-spent in a specific period of time</p>								
Helped	Hurt																
-Borrowers	-Lenders																
	-Savers																
	-People on fixed incomes																
Three Causes of Inflation	Quantity Theory of Money																
<p>1. The Government prints money to pay citizens and pay off debts (see the Quantity Theory of money) Usually causes hyperinflation. Examples: Germany after WWI, Zimbabwe in 2008.</p> <p>2. Demand-Pull Inflation- An overheated economy with excessive spending but same amount of goods.</p> <p>3. Cost-Push Inflation- The result of a “negative supply shock” that increases the costs of production and forces producers to increase prices. Example: A significant increase in the price of oil would lead to higher costs for firms and higher prices.</p>	<p>Quantity Theory of Money Equation:</p> $\underline{M} \times \underline{V} = \underline{P} \times \underline{Q}$ <p>\underline{M} = Money Supply \underline{P} = Price Level \underline{V} = Velocity of Money \underline{Q} = Quantity/Output</p> <p>Assume the amount of money is \$5 and it is being used to buy 10 products with a price of \$2 each.</p> <p>1. How much is the velocity of money? 4</p> <p>2. If the velocity and output stay the same, what will happen if the amount of money increases to \$10? Price level will also double.</p>																

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Unit 3: Aggregate Demand, Aggregate Supply, and Fiscal Policy

AD, AS, and LRAS

Draw the economy at full employment



★ Short Run vs. Long Run Aggregate Supply

1. In the short run, wages and resource prices will NOT increase as price levels increase *that's why SRAS goes up*
2. In the long run, wages and resource prices will increase as price levels increase

Shifters of AD and AS

Shifters of Aggregate Demand

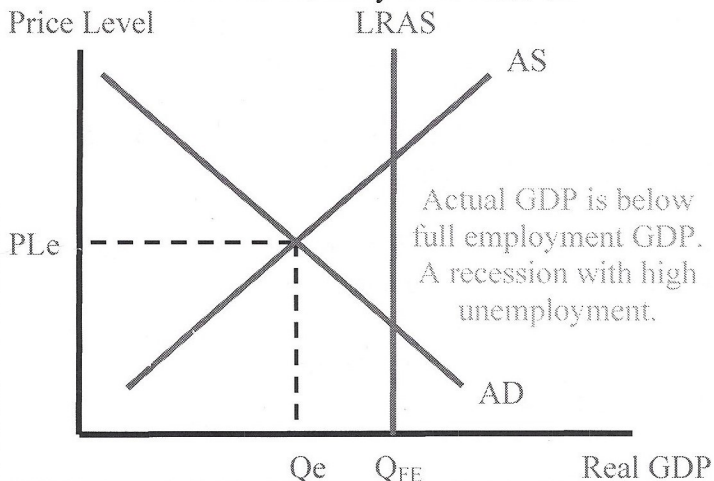
1. Consumer Spending
2. Investment Spending
3. Government Spending
4. Net Exports (Exports – Imports)

Shifters of Aggregate Supply

1. Resource Prices
2. Actions of the Government (ex: taxes, regulations)
3. Productivity

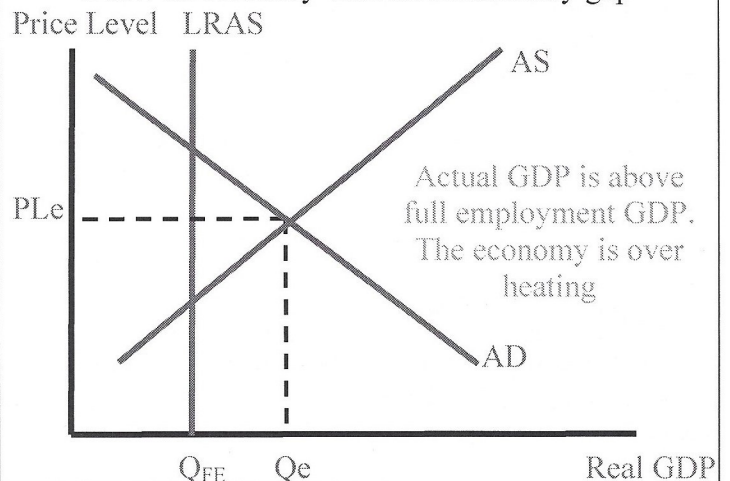
Recessionary Gap

Draw an economy in a recession



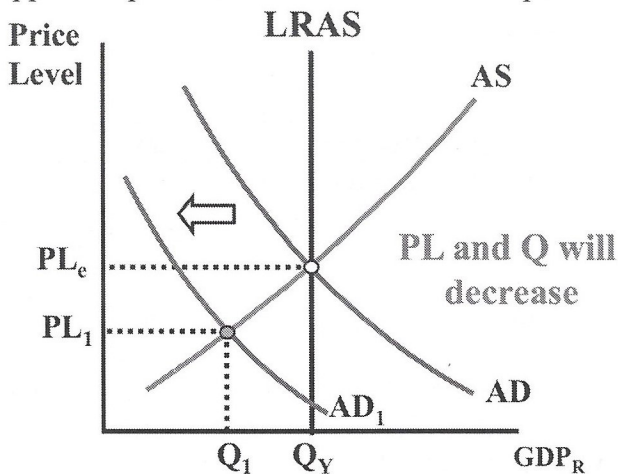
Inflationary Gap

Draw an economy with an inflationary gap



Graphing Practice

Draw an economy at full employment. Show what happens to price level and GDP if consumption falls



Define Key Terms

Negative Supply Shock-

An unexpected decrease in the availability of a key resource that temporarily decreases productivity

Positive Supply Shock-

An unexpected increase in the availability of a key resource that temporarily increases productivity

Stagflation-

When there is high inflation and a sluggish economy. Usually accompanies a negative supply shock.

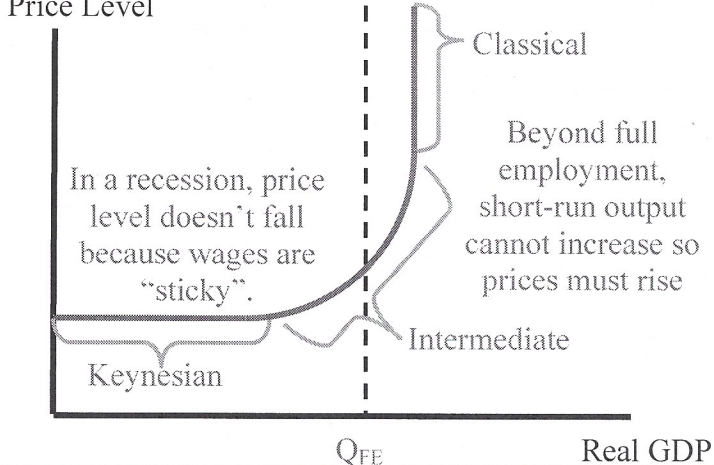
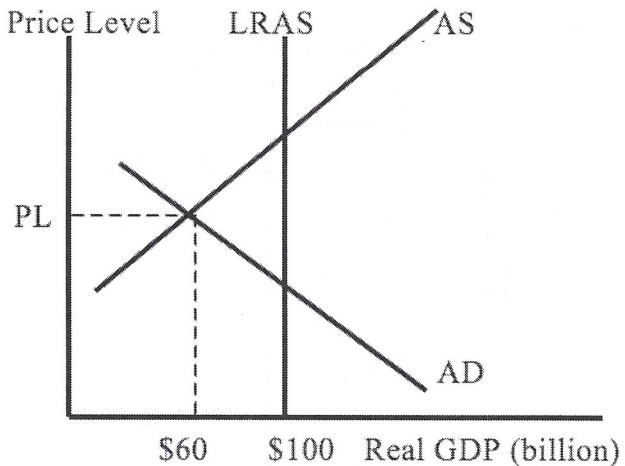
Autonomous Consumption-

The minimum amount of consumer spending when people have no income

Disposable Income- (income) (tax)

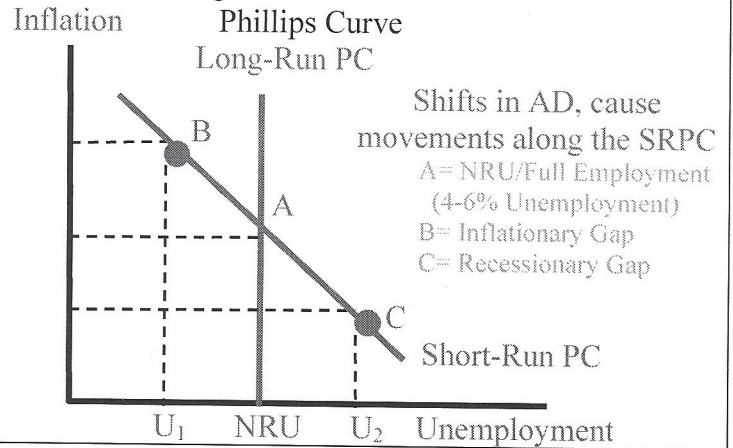
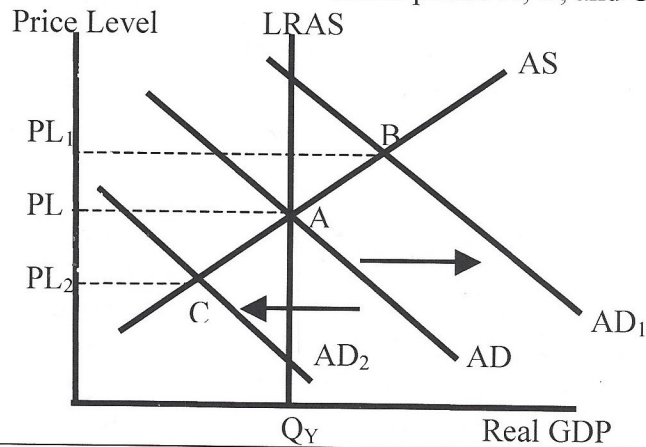
The amount of money households have to spend or save after taxes

If someone gave this to you, they are a jerk

Classical vs. Keynesian Economics		Fiscal Policy	
<p>What is classical economic theory? <i>as is vertical</i> The belief that the economy self corrects and government intervention will do more harm than good</p> <p>What is Keynesian economic theory? <i>AS upward sloping</i> The belief that the government should actively manipulate the economy to reach full employment</p>		<p>Define Discretionary Fiscal Policy- Congress creates a new bill that is designed to change AD through government spending or taxation.</p> <p>Define Non-Discretionary Fiscal Policy- Permanent spending or taxation laws enacted to work counter cyclically to stabilize the economy</p>	
Three Ranges of the Aggregate Supply Curve		Government Spending and Taxation	
<p>Draw and label the three ranges of the AS curve</p>  <p>Price Level</p> <p>Keynesian</p> <p>Intermediate</p> <p>Classical</p> <p>Beyond full employment, short-run output cannot increase so prices must rise</p> <p>In a recession, price level doesn't fall because wages are "sticky".</p> <p>Q_{FE}</p> <p>Real GDP</p>		<p>Expansionary Fiscal Policy- Laws to increase output</p> <ol style="list-style-type: none"> 1. Increase Government Spending 2. Decrease Taxes (Increases disposable income) <p>Contractionary Fiscal Policy- Laws to reduce inflation</p> <ol style="list-style-type: none"> 1. Decrease Government Spending 2. Increase Taxes (Decreases disposable income) 	
Simple Spending Multiplier		The Multiplier Effect	
$\frac{1}{MPS} \text{ OR } \frac{1}{1 - MPC}$		<p>What is the Multiplier Effect?</p> <p>The idea that an initial change in spending will set off a spending chain that is magnified in the economy. The strength of multiplier depends on the amount that consumers spend of new income.</p> <p>Define Marginal Propensity to Consume (MPC)- How much people consume rather than save when there is a change in income</p> <p>Define Marginal Propensity to Save (MPS)- How much people save rather than consume when there is a change in income</p>	
Tax Multiplier		Policy and Multiplier Practice	
$\frac{MPC}{MPS}$		 <p>Price Level</p> <p>LRAS</p> <p>AS</p> <p>AD</p> <p>PL</p> <p>\$60</p> <p>\$100</p> <p>Real GDP (billion)</p> <ol style="list-style-type: none"> 1. Is there a recessionary or inflationary gap? Recessionary 2. If the government does no policy and resource prices are flexible, in the long run wages will <u>fall</u> and aggregate supply will <u>increase</u> 3. If fiscal policy is used to close the gap the government could <u>increase</u> spending or <u>decrease</u> taxes on consumers <p>Assume the MPC is .5: (multiplier is 2)</p> <ol style="list-style-type: none"> 4. What is the least amount of government spending that could potentially close the gap? \$20 billion 5. How much could the government cut taxes to close the gap? \$40 billion tax cut (consumers only spend half) <p>Now assume that the MPC is .8: (multiplier is 5)</p> <ol style="list-style-type: none"> 6. What is the least amount of government spending that could potentially close the gap? \$8 billion 	
Problem with Fiscal Policy		Inflationary Expectations	
<ol style="list-style-type: none"> 1. Deficit Spending-if the government increases spending without increasing taxes they will increase the annual deficit and the national debt 2. Time Lags-Congress takes time to write, debate, pass, and implement legislation 3. Crowding out- Government spending might cause unintended effects that weaken the impact of the policy. Ex: deficit spending to increase AD would increase interest rates and decrease investment 		<p>What happens to aggregate supply when people expect inflation?</p> <p>If people expect inflation, workers will seek higher wages and costs for businesses will increase. This causes the aggregate supply to decrease</p> <p><i>Stagflation</i></p>	

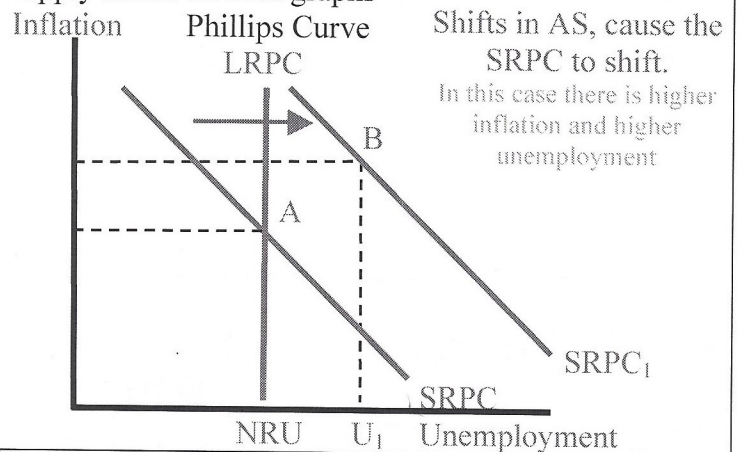
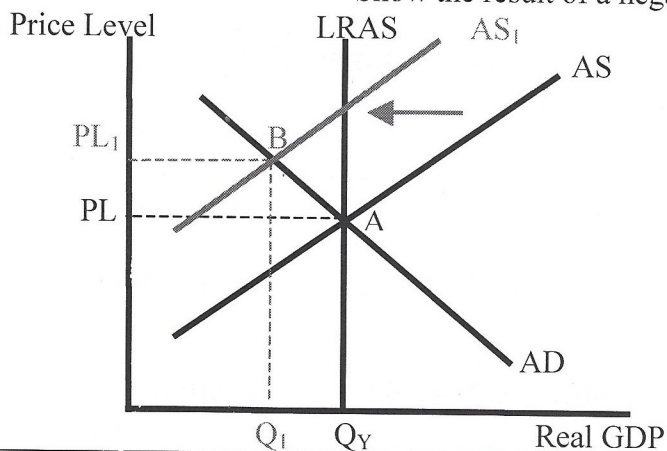
Short Run and Long Run Phillips Curve

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



Draw and label the short and long run Phillips curve and label point A.

Show the result of a negative supply shock on both graphs



Economic Growth Practice

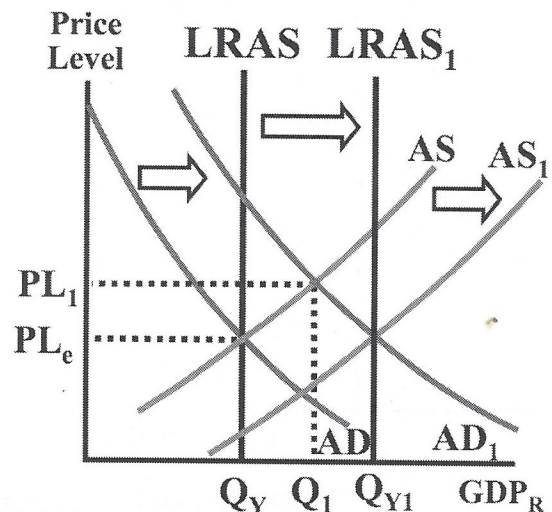
1. If interest rates fall, investment \uparrow causing capital stock to \uparrow and economic growth to \uparrow .
2. If interest rates go up, investment \downarrow causing capital stock to \downarrow and economic growth to \downarrow .

True or False

3. An increase in consumer spending leads to more economic growth in the long run. False
4. Crowding out due to deficit spending causes less economic growth. True
5. When the long run aggregate supply shifts right the natural rate of unemployment increases. False
6. A sustained increase in productivity causes both the long run aggregate supply curve and production possibilities curve to shift right. True
7. Jacob Clifford is very attractive. Very True ☺

Showing Economic Growth with AD and AS

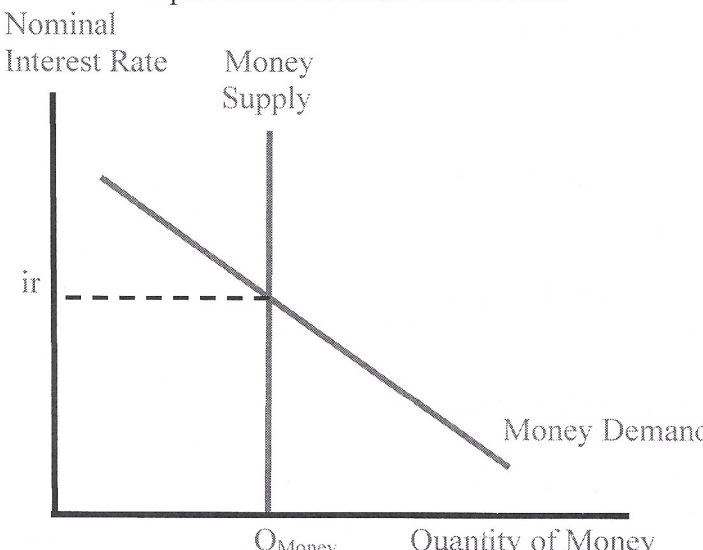
Draw an economy at full employment. Show what happens in the long run if investment increases



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potential real gdp

Unit 4: The Financial Sector, Money, and Monetary Policy

Define Key Terms	The Three Functions of Money
<p>The Financial Sector- The part of the economy made up of institutions (like banks) that focus on pairing lenders and borrowers</p> <p>Assets- Any item of economic value that can be converted into cash. Something owned</p> <p>Liabilities- A legal or financial obligation that must be paid back. Something owed</p> <p>Liquidity- The ease in which an asset can be converted into medium of exchange. Cash and money in checking accounts is very liquid. A car or a home is not</p>	<p>1. A Medium of Exchange- Money can easily be used to buy goods and services. Don't have to barter</p> <p>2. A Unit of Account- Money measures the value of goods and services and measures value</p> <p>3. A Store of Value-Money allows you to store purchasing power for the future</p>
The Demand for Money	Types of Money
<p>What is the transaction demand for money? People demand money to make everyday purchases. This is not affected by the interest rate</p> <p>What is the asset demand for money? When people demand money as a liquid asset because they prefer it to other non-liquid assets like bonds</p> <p>Interest rate \uparrow, the quantity of money demanded \downarrow</p> <p>Interest rate \downarrow, the quantity of money demanded \uparrow</p>	<p>1. Commodity Money Something that performs the function of money and has an alternative use (ex: mackerel in prison)</p> <p>2. Fiat Money Something used for exchange but has no other important use (ex: \$20 dollar bill)</p>
Shifters of Money Demand	The Money Market Graph
<p>1. Changes in price level- Inflation requires consumer to hold more cash for financial transactions.</p> <p>2. Changes income- Sustained economic growth in the economy leads to a increase in the demand for money</p> <p>3. Changes in taxation that affects personal investment- Government policies such as changing the capital gains tax would change the demand for money</p>	<p>Draw the demand and supply of money and label the equilibrium nominal interest rate</p> 
Shifters of Money Supply	Money Market Practice
<p>1. Reserve ratio-the the percent of deposits that banks must hold in reserve (the % they can NOT loan out)</p> <p>-To increase money supply, decrease the reserve ratio</p> <p>-To decrease money supply, increase the reserve ratio</p> <p>2. Discount Rate- the interest rate that the FED charges commercial banks</p> <p>-To increase money supply, decrease the discount rate</p> <p>-To decrease money supply, increase the discount rate</p> <p>3. Open Market Operations- when the FED buys or sells government bonds (securities)</p> <p>-To increase money supply, the FED buys bonds</p> <p>-To decrease money supply, the FED sells bonds</p>	<p>1. Unexpected inflation causes the demand for money to <u>increase</u> and the interest rate to <u>increase</u>.</p> <p>2. If the supply of money increased, the interest rate will <u>decrease</u> and investment will <u>increase</u>.</p> <p>True or False</p> <p>3. When the interest rate is high, the opportunity cost of holding money increases so the quantity of money demanded will decrease. True</p> <p>4. The money supply includes all assets like cash, demand deposits, bonds, and real estate. False</p> <p>5. Monetary policy is when the central banks changes the interest rates by changing the money supply True</p>

The Federal Reserve (The Fed)		Money Multiplier Equation																					
What is the Federal Reserve and what does it do? The Fed is the central bank of the United States and it regulates commercial banks and adjusts the money supply to adjust interest rates to meet economic goals. This is called Monetary Policy.		$\frac{1}{\text{Reserve Requirement}}$																					
Money Multiplier Practice		Shifter Practice																					
1. Assume the reserve requirement is .10. If the Fed buys \$10 billion worth of bonds the money supply will <u>increase</u> by <u>\$100</u> billion. 2. Assume the reserve requirement is .20. If the Fed sells \$10 billion worth of bonds the money supply will <u>decrease</u> by <u>\$50</u> billion. 3. Assume the reserve requirement is .10. If the Fed buys \$5 billion worth of bonds the money supply will <u>increase</u> by <u>\$50</u> billion. 4. Assume the reserve requirement is .50. If the Fed sells \$5 billion worth of bonds the money supply will <u>decrease</u> by <u>\$10</u> billion. 5. Assume the reserve requirement is .25. If the Fed sells \$2 billion worth of bonds the money supply will <u>decrease</u> by <u>\$8</u> billion.		1. If the FED increases the reserve requirement the money supply will <u>↓</u> and interest rates <u>↑</u> . 2. If the FED sells bonds the money supply will <u>↓</u> interest rates <u>↑</u> , and investment <u>↓</u> . 3. If the FED decreases the reserve requirement the money supply will <u>↑</u> and interest rates <u>↓</u> . 4. If the FED decreases the discount rate, the money supply will <u>↑</u> and interest rates <u>↓</u> . 5. If the FED buys bonds the money supply will <u>↑</u> interest rates <u>↓</u> , and investment <u>↑</u> .																					
		Federal Funds Rate																					
		Federal Funds Rate- The federal funds rate is the interest rate that banks charge each other for loans. The Fed uses open market operations to hit this target rate.																					
Bonds		Interest Rates and Inflation																					
What is maturity? A borrower issues a bond that must be paid back by a certain amount of time. That time is its maturity. A bond can be sold early at an agreed upon price. If the interest rate increases, bond prices will <u>↓</u> If the interest rate decreases, bond prices will <u>↑</u>		1. If the nominal interest rate is 7% and expected inflation is 3%, what is the real interest rate? 4% 2. If the real interest rate is -2% and the nominal interest rate was 3%, what was the inflation rate? 5% Real interest rate = nominal rate - expected inflation Nominal interest rate = real rate + expected inflation																					
Bank Balance Sheets																							
Define Fractional Reserve Banking- Process where banks hold a portion of deposits in reserve and loan the rest of the money out Define Excess Reserves- The amount banks are legally free to loan out. Excess reserves and required reserves make up total reserves		Define Demand Deposits- Bank deposits that can be withdrawn at any time (ex: checking accounts) Define Owner's Equity- The amount of money owners have put into a company or bank. It doesn't need to be held in reserve																					
1. If the reserve requirement is .1 (or 10%) how much is this bank's required reserves and excess reserves? Req =\$2,000 Excess = \$3,000 2. What is the maximum possible increase in the money supply if the bank loaned out all its excess reserves? \$30,000 (\$3,000 x 10) 3. Assume a customer deposits \$5,000 into this bank, what is the initial change in the money supply? There is no initial change 4. If the \$5,000 deposit is placed in reserve, how much is demand deposits and excess reserves? Demand deposits=\$25,000 Excess = \$7,500		Use the bank balance sheet to answer the questions <table><tr><th colspan="2">Assets</th><th colspan="2">Liabilities</th></tr><tr><td>Loans</td><td>\$15,000</td><td>Demand Deposits</td><td>\$20,000</td></tr><tr><td>Total Reserves</td><td>\$5,000</td><td>Owner's Equity</td><td>\$10,000</td></tr><tr><td>Treasury Bonds</td><td>\$10,000</td><td></td><td></td></tr><tr><td>Total</td><td>\$30,000</td><td>Total</td><td>\$30,000</td></tr></table> 5.Assume a customer withdraws \$15,000. Identify three options this bank has to avoid defaulting other than asking borrows to pay back loans. They can sell treasury bonds, borrow money from the Fed, or borrow money from another bank		Assets		Liabilities		Loans	\$15,000	Demand Deposits	\$20,000	Total Reserves	\$5,000	Owner's Equity	\$10,000	Treasury Bonds	\$10,000			Total	\$30,000	Total	\$30,000
Assets		Liabilities																					
Loans	\$15,000	Demand Deposits	\$20,000																				
Total Reserves	\$5,000	Owner's Equity	\$10,000																				
Treasury Bonds	\$10,000																						
Total	\$30,000	Total	\$30,000																				

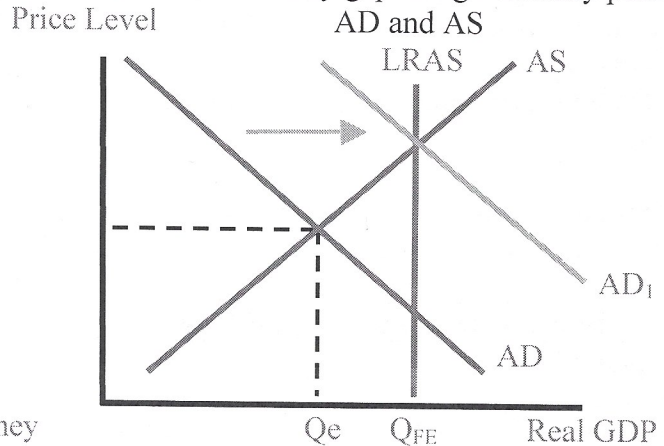
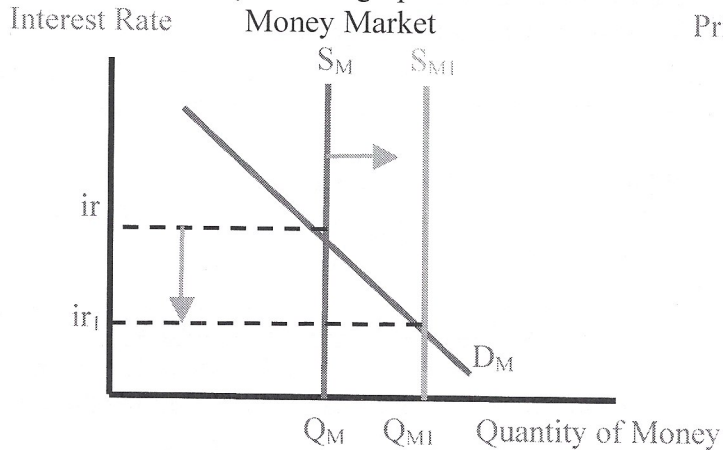
If your friend gave you this packet, they are a jerk...and a thief. Don't be their friend

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Monetary Policy and AD/AS

Draw and label both graphs and show the economy in a recession.

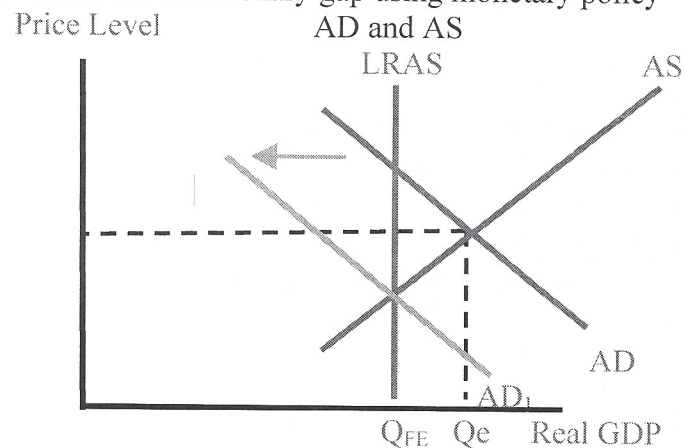
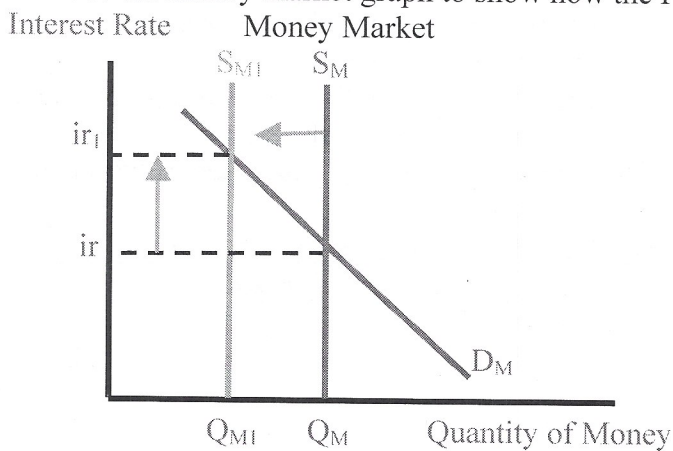
Use the money market graph to show how the FED closes the recessionary gap using monetary policy



Use arrows to explain the process: $S_M \uparrow \rightarrow ir \downarrow \rightarrow I \uparrow$ and $C \uparrow \rightarrow AD \uparrow \rightarrow$ Full Employment

Draw and label both graphs and show the economy with an inflationary gap.

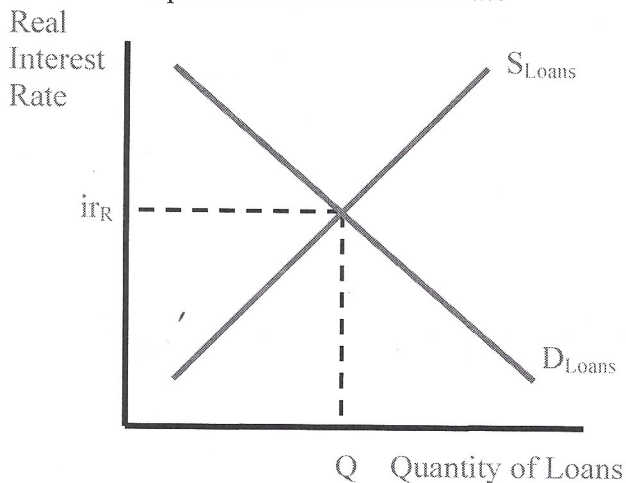
Use the money market graph to show how the FED closes the inflationary gap using monetary policy



Use arrows to explain the process: $S_M \downarrow \rightarrow ir \uparrow \rightarrow I \downarrow$ and $C \downarrow \rightarrow AD \downarrow \rightarrow$ Full Employment

The Loanable Funds Market

Draw the loanable funds market and label the equilibrium real interest rate



Shifters of Demand for Loanable Funds

1. Changes in perceived business opportunities
2. Changes in government borrowing

Shifters of Supply for Loanable Funds

1. Changes in private savings behavior
2. Changes in public savings
3. Changes in foreign personal investment
4. Changes in expected profitability

Loanable Funds Practice

1. What happens to the real interest rate if the government runs a deficit? Demand increases so interest rate increase
2. If lenders decide to lend less, real interest rates \uparrow , investment \downarrow , and economic growth \downarrow
3. An increase in savings would cause real interest rates to \downarrow , investment \uparrow , and economic growth \uparrow

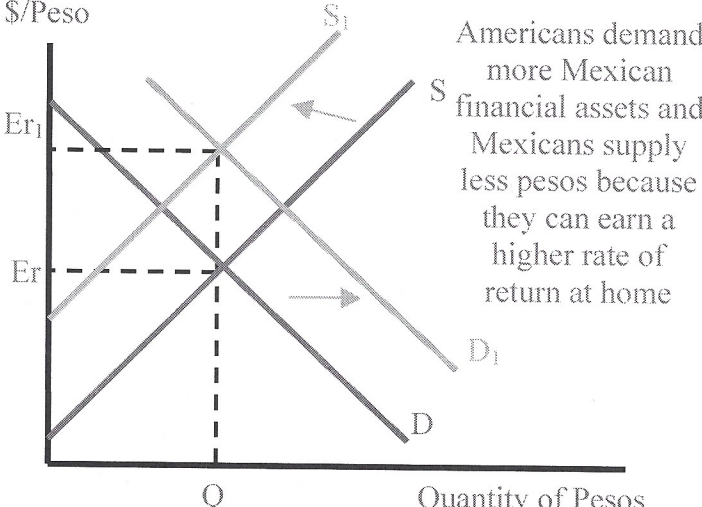
Seriously, Thank you!

Unit 5: International Trade

Key Terms	Balance of Payments
<p>Exports- the sale of goods and service created by domestic producers and sold to foreigners</p> <p>Imports- the purchase of goods and service created by foreigners</p> <p>Net Exports (X_N)- Exports – Imports. The difference between a nation's exports of goods and services and its imports of goods and services</p> <p>Trade Deficit- Exporting less than is imported (aka. trade gap)</p> <p>Trade Surplus-Exporting more than is imported. China has a huge trade surplus with the US.</p>	<p>What is the Balance of Payments? Summary of all international transactions within a given year prepared in the domestic country's currency. It has two accounts, the current account and the financial account.</p> <p>What is the Current Account? Measures the international trade in goods and services, investment income, and net transfer payments.</p> <p>What is the Financial Account? Measures the international trade of financial assets like stocks, bonds, and real estate.</p>
Interest Rates and Capital Flows	Balance of Payments Practice
<p>Net Capital Flow- The difference between the amount of money coming into a country to buy domestic assets and the amount of money leaving a country to buy foreign assets.</p> <p>What is the difference between capital inflows and capital outflows?</p> <p>Inflows looks at money coming into the country to buy domestic assets and outflows looks at money going out of the country to buy foreign assets</p> <p>Interest rate \uparrow, the capital inflows \uparrow</p> <p>Interest rate \downarrow, the capital inflows \downarrow</p> <p>Interest rate \uparrow, the capital outflows \downarrow</p> <p>Interest rate \downarrow, the capital outflows \uparrow</p>	<p>Identify if the example would be included in the current account or the financial account for the US</p> <ol style="list-style-type: none"> 1. A US company sells ten jets in Canada Current 2. An American company buys a beach resort in Mexico Financial 3. A Chinese company sells toys in the US Current 4. An American on vacation buys Japanese government bonds Financial 5. An immigrant living in the US sends his earning to his family overseas Current (called remittance) 6. An American company produces and sells cars in the US Neither 7. An Italian tourists buys souvenirs in the US Current
The Foreign Exchange Market	Currency Valuation
<p>Draw the foreign exchange market for US dollars (\$) relative to Japanese Yen (¥)</p> <p>Show on the graph what happens to the value of the dollar if American want more Japanese products</p>	<p>Define Appreciation- The increase of value of a country's currency relative to a foreign currency</p> <p>Define Depreciation- The decrease of value of a country's currency relative to a foreign currency</p>
	FOREX Shifters
	<ol style="list-style-type: none"> 1. Changes in Tastes- Ex: British tourists flock to the U.S 2. Changes in Relative Incomes (Resulting in more imports)- Ex: US growth increase US incomes 3. Changes in Relative Price Level (Resulting in more imports)- Ex: US prices increase relative to Britain 4. Changes in relative Interest Rates- Ex: If the US has a higher interest rate than Britain.

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Interest Rates and Foreign Exchange	Appreciation and Depreciation Practice
<p>Draw the foreign exchange market for Mexican Pesos. Show what happens to the value of pesos relative to the US dollar if interest rates in Mexico increase</p>  <p>Americans demand more Mexican financial assets and Mexicans supply less pesos because they can earn a higher rate of return at home</p>	<ol style="list-style-type: none"> 1. If American tourists increase visits to Japan, the supply of US dollars will <u>increase</u> and the demand for Japanese yen will <u>increase</u>. The dollar will <u>depreciate</u> and the yen will <u>appreciate</u>. 2. If the US government significantly decreases personal income taxes, the dollar will <u>depreciate</u> and the yen will <u>appreciate</u> 3. If inflation in the Japan rises significantly faster than in the US, the dollar will <u>appreciate</u> and the yen will <u>depreciate</u> 4. If Japan has a large budget deficit that increases Japanese interest rates, the dollar will <u>depreciate</u> and the yen will <u>appreciate</u> 5. If Japan places high tariffs on all US imports, the dollar will <u>depreciate</u> and the yen will <u>appreciate</u> 6. The US suffers a larger recession the dollar will <u>appreciate</u> and the yen will <u>depreciate</u>
Foreign Exchange and Net Exports	Exchange Rate Regimes
<p>If a country's currency appreciates, net exports <u>↓</u></p> <p>If a country's currency depreciates, net exports <u>↑</u></p> <ol style="list-style-type: none"> 1. The US dollar will appreciate relative to another currency if demand for the dollar <u>increases</u> or if supply <u>decreases</u>. This will cause US exports to <u>decrease</u> and imports to <u>increase</u>. 2. The US dollar will depreciate relative to another currency if demand for the dollar <u>decreases</u> or if supply <u>increases</u>. This will cause US exports to <u>increase</u> and imports to <u>decrease</u>. 	<p>What are floating exchange rates?</p> <p>The value of a currency can fluctuate according to the market and is not manipulated by the government</p> <p>What are fixed exchange rates?</p> <p>When the value of a currency is manipulated by the government to keep it at a specific level</p> <p>How does a government fix, or peg, its exchange rate?</p> <p>If the government wants to keep their currency depreciated to promote trade, they buy other currencies to increase the supply of their currency</p>

Congratulation! You are done with macroeconomics