



Unit III
“Measuring Economic Performance”

Chapter 12
Section 1 (Pgs. 301-308)

Gross Domestic Product (GDP)-

1. What is the difference between final goods and services as opposed to **intermediate goods**?
2. Why are the cost of items used to build a new house not included into GDP?
3. List the four categories of final goods and services considered when calculating GDP from the expenditure approach.
 - 1.
 - 2.
 - 3.
 - 4.
4. What is the difference between **durable** and **nondurable goods**? Give an example of each.

Durable-

Nondurable-

5. How does the income approach calculate GDP?

Nominal GDP-

Real GDP-



6. What is the difference between nominal and real GDP?

7. List and describe the 4 limitations on GDP

- 1.
- 2.
- 3.
- 4.

8. If **aggregate demand** rises, what happens to real GDP? What happens to the **price level**?

Section 2 (Pgs. 310-316)

Business Cycle-

Expansion-

Economic Growth

Peak-

Contraction-

Trough-



9. What are four main economic variables that affect the business cycle?

10. What do consumers use to purchase “big ticket” items? List two “big ticket” items?

Leading Indicators-

11. When was the most recent recession? What caused it?

Section 3 (Pgs. 318-324)

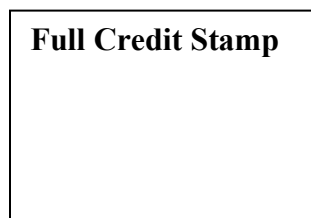
Per Capita GDP-

12. What is **capital deepening**, and how does it contribute to economic growth?

Savings rate-

14. How do patents encourage technological progress?

Full Credit Stamp



Chapter 13

Section 1 (Pgs. 330-336)



Frictional Unemployment-

1. What does unemployment insurance provide? How does this help someone who is **frictionally unemployed**?

Seasonal Unemployment-

2. Why don't government policy makers take steps to prevent seasonal unemployment?

Structural Unemployment-

3. How does lack of education and globalization cause structural unemployment.

Lack of education-

Globalization-

Cyclical Unemployment-

What is the Census-

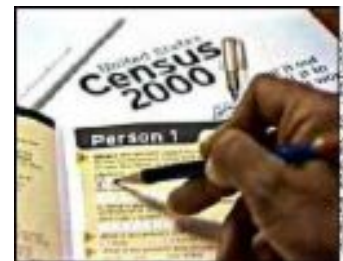
Unemployment Rate-

Full employment-

Underemployed-

Discouraged Worker-

4. What kind of jobs were lost after the September 11 attacks? How many jobs were lost in New York?



Section 2 (Pgs. 338-343)

Inflation-

Purchasing Power-

Price Index-

The Consumer Price Index (CPI)-

Market Basket of goods-

Inflation Rate-

5. Write the formula for calculation the inflation rate.
6. What caused the inflation rate to spike in 1974 and 1980?

Hyperinflation-

Quantity theory of inflation-

Demand-pull Theory-

Cost-push Theory-

7. What causes a **wage-price spiral**, and what can it lead to?

Fixed Income

Deflation-

Section 3 (Pgs. 345-350)

Poverty threshold-

Poverty Rate-

8. Looking at figure 13.9 on page 346. What is the difference between White, not Hispanic, and Black poverty threshold rates?



9. Looking at the causes of poverty, why are the “working poor” living below the poverty threshold when they have a job?

Income distribution-

Food Stamps

10. List and describe the three major factors that lead to an income gap in the United States

1.

2.

3.

Stamp Credit Stamp

Chapter 14

Section 1 (Pgs. 358-363)

1. Why is taxation important to governments?

Revenue-

2. List and describe the two limits the Constitution specifies for taxation.

1.

2.



Tax base-

Individual income tax-

Sales tax-

Property tax-

Corporate income tax-

Proportional tax-

Progressive tax-

Regressive tax-



3. **Look at figure 14.1 on page 360.** How does Mary's higher income affect the taxes she pays in each type of tax structure?

4. List and describe four characteristics of a good tax. (Is there such a thing? J/K)

1.

2.

3.

4.

5. Describe the **benefits-received** principle. How does it differ from the **ability-to-pay principle**?

7. Give an example of a tax in society today that utilizes the “benefits received” principle.

Section 2 (Pgs. 364-369)

6. Why does the government use the “**Pay-As-You-Earn**” taxation method?

Tax return-

Taxable income-

7. What does gross income include?

Personal exemption-

Deduction-

FICA-

Social Security-

8. What was the original reason for Social Security? What does it provide today?

Medicare-

9. In order to collect unemployment what must a person do?

Estates tax-

Gift tax-

Tariffs-

Tax incentive-

10. What is the main purpose of a **sin tax**? (Remember negative externalities)



Section 3 (Pgs. 371-374)

Mandatory spending-

Discretionary spending-

Entitlement-

Medicaid-

11. Why has spending for both Social Security and Medicare increased in recent years?
Hint: remember the baby boomers?

Section 4 (Pgs. 375-380)

Balanced budgets-

Tax exempt-

Full Credit Stamp

Chapter 15
Section 1 (Pgs 386-393)

Fiscal Policy-

1. Why does the government use fiscal policy?

Federal budget-

Fiscal year-

Office of Management and Budget (OMB)-

2. Fill in the chart below to illustrate the difference between expansionary and contractionary policies

	Type of Policy	How the Policy Works
Expansionary Policies		
Contractionary Policies		

5. Which fiscal policy strategy do you think policymakers would use in each of these scenarios? Explain your answers.

(a) Inflation is rising, unemployment is below 4%, and real GDP is up by 8 percent.

(b) GDP is down, and the unemployment rate has increased to 10 percent.

a.

b.

4. List all five limits on fiscal policy.

- 1.
- 2.
- 3.
- 4.
- 5.



Section 2 (Pgs. 395-401)

5. What was the thinking of **classical economics**? What event challenged their thinking? (think FDR)

Production capacity-

6. What was Keynes' argument for the continuation of the Great Depression? What was the only way to end the depression in his opinion?

7. How does **demand-side economics** change demand to help the economy?

Keynesian economics-

8. What expansionary fiscal policies created by President Franklin D. Roosevelt implemented Keynes's ideas?

Multiplier effect-

Explain this quote relative to the money multiplier:
"every person's expense is another's income"

Supply-side economics-

Section 3 (Pgs. 403-408)

9. What is a **balanced budget**?

Budget surplus-

Budget deficit-



10. How might a **budget deficit** be related to the national debt?

11. What is the difference between a deficit and debt?

Crowding-out effect-

Full Credit Stamp

Chapter 16

Section 1 (Pgs. 415-418)

1. Why did many people fear a central bank in 1816?
2. How did the Fed become stronger after 1935?



Board of Governors-

3. Why is a board of governor terms staggered?

Monetary Policy-

4. What is the role of each Federal Reserve Bank in its district?

Federal Open Market Committee (FOMC)-

5. What can the FOMC's announcements affect?

Section 2 (Pgs. 420-423)

6. What payments does the Federal Reserve process for the United States government?

Check Clearing-

7. **Look at figure 16.3 on page 421.** Who clears (approves) the original check?

Federal Fund Rate-

8. What is the difference between the **federal funds rate** and the **discount rate**?

Net Worth-(how do we calculate this?)

Section 3 (Pgs.425-429)

9. After the 2001 terrorist attacks, how did the Fed encourage consumer spending?

Money Creation-



Required Reserve Ratio (RRR)-

10. What does the **required reserve ratio** ensure?

11. Describe the effects of the two actions the Fed put on the reserve requirement.

1. Reducing the Reserve Requirement-

2. Increasing the Reserve Requirement-

Prime Rate-

Open Market Operations-

12. How do bond sales affect the money supply?

Section 4 (Pgs. 430-434)

Monetarism-

13. Why would the Federal Reserve enact an **easy money policy**?

14. Why would the Federal Reserve enact a **tight money policy**?

Inside lags

Outside lags-

Full Credit Stamp