MIDTERM 2 – REVIEW TOPICS

I. Aggregate Demand and Aggregate Supply

AD

**DEFINITION**

(EXPENDITURES: C+I+G+NX, NX = X-M)

\[ C = MPC(1-T)Y, \text{WHERE} \ MPC = (1-MPS) \text{AND} T = \text{TAX} \]

**SHAPE**

**CHANGES**

**INVESTMENT**

savings supply
investment demand
the effects of govt. surpluses and deficits (include study of Ricardo barro effect)

AS

**SHAPE**

**CHANGES**

**POTENTIAL GDP**

changes in labor supply
changes in labor demand
unemployment in the labor market

**EQUILIBRIUM**

**CHANGES IN AD AND AS**

**MULTIPLIER EFFECT**

**FISCAL POLICY AND THE BUSINESS CYCLE**

**TYPES – DISCRETIONARY AND AUTOMATIC**

**ABOVE AND BELOW FULL EMPLOYMENT**

**EFFECT ON AD**

**EFFECT ON AS**

II. MONEY, BANKING AND THE FED
III. MONEY MARKET
   MONEY DEMAND
     SHAPE
     CHANGES IN

   MONEY SUPPLY
     SHAPE

   CHANGES IN MONEY SUPPLY
     SHORT RUN
     LONG RUN
     QUANTITY THEORY OF MONEY
     EFFECTS ON EQUIL PRICE AND LEVEL OF GDP

IV. MONETARY VS. FISCAL POLICY
    OUTCOMES
      CONDITIONS THAT MAKE FOR EFFECTIVE MONETARY POLICY
      CONDITIONS THAT MAKE FOR EFFECTIVE FISCAL POLICY
      DIFFERENCES – CLASH IN OUTCOMES

    MONETARY POLICY OPTIONS
      FIXED RULE MONETARISM
      KEYNESIAN ACTIVISM

    ALTERNATE MONETARY POLICY GOAL : TARGET INFLATION RATHER THAN GDP – IMPLICATIONS