

Review Topics for Exam 3 – Econ. 100

Chapter 10, Pages 199-206

Investment

Expected Rate of Net Profit

The Real Interest Rate

Investment-Demand Curve

Shifts in Investment Demand –

Acquisition, Maintenance and Operating Costs, Business Taxes, Technological Change, the Stock of Capital Goods on Hand, Expectations

Investment and Income

Instability of Investment – Durability, Irregularity of Innovation, Variability of Profits & Expectations

Multiplier

Multiplier and Higher Investment Levels

Chapters 11

Multiplier

Changes in Real GDP and the Multiplier

Rationale for the Multiplier

Leakages to the Multiplier

International Trade and the GDP

Net Exports

Three positions of net exports

Balance of Trade

Chapters 13

Employment Act of 1946

Council of Economic Advisors

Fiscal Policy

Discretionary and non-discretionary fiscal policy (build-in stabilizers)

Fiscal policy works in a counter-cyclical fashion

Contractionary and expansionary discretionary and non-discretionary fiscal policy

Taxes and expenditures, the federal budget and budget deficits and surpluses

Problems with fiscal policy

Lags in fiscal policy

Crowding out

Federal budget balance, deficit and surplus

Public debt & Foreign Owned Public Debt

Chapters 14

Money and the functions of money

Defining money – the money supply, M1, M2, M3

What gives money value?

Near monies

Exam 3 - Review

Credit cards
Time deposits
Money and prices
Banks, Thrifts, S&L's
Commercial banks – State and National
Federal Reserve System
Functions of the Federal Reserve
Board of Governors
Federal Open Market Committee (FOMC)
Federal Reserve Banks
The Global Greenback

Chapters 15

Goldsmith's Principle
How Fractional Reserve Banking Works
Required reserves
Excess reserves
Federal Funds Rate
How banks create money
Monetary Multiplier or demand deposit multiplier

Chapters 16

Objectives of monetary policy
Instruments of monetary policy:
 Discount rate,
 Reserve ratio
 Open Market Operations
Easy monetary policy and tight monetary policy
Fed Funds rate
Other Fed controls:
 Stock market credit
 Consumer and real estate credit
 Moral suasion
Prime Interest Rate
Advantages of monetary policy
Disadvantages of monetary policy
Recent developments in monetary policy and Fed programs
Putting the system together pages 326-327

Downloads

#12- Krugman, "Debt Arithmetic"
14 – Tritch, "How the Deficit Got This Big"
15 – Krugman, "Deficits and the Future"

Sample Questions

1. What are the functions of the Federal Reserve System
2. What are the economic functions of money?
3. How do banks create money?
4. What are the tools of the Fed?
5. How do the tools of the Fed work to provide for expansionary or contractionary monetary policy?
6. What economic conditions would call for expansionary monetary and fiscal policy, and/or contractionary monetary and fiscal policy?
7. Explain and illustrate a recessionary and an inflationary gap.
8. Explain expansionary and contractionary fiscal policy.
9. What is the difference between discretionary & non-discretionary fiscal policy?
10. What are the leakages to the multiplier?
11. If the $MPC = .75$, by how much will an increase in investment of \$200 billion increase GDP? By how much will an increase in government expenditure of \$100 billion increase GDP?
12. What is the difference between the federal budget deficit and the public debt?
13. What is the difference between movements up or down a given investment demand curve and a shift in the investment demand curve?
14. Identify and explain four (4) possible reasons for a shift to the right and a shift to the left in the investment demand curve.
15. According to Teresa Tritch, how did the federal deficit get so big?
16. Does Krugman agree with the idea that government spending is "crowding out" private investment?