A. Direct Questions

Chapter 8 questions (“Classical/Neo-Classical/Monetarist” Economics):

1. Explain the difference between short-run equilibrium and long-run equilibrium.
2. How does a self-regulating economy eliminate a recessionary gap? .....an inflationary gap?
3. Beginning from long-run equilibrium, how would an increase in savings affect the economy?
4. What is laissez-faire, and what are the implications of laissez-faire for economic policy?

Chapter 9 questions (Keynes):

5. What is Say’s Law? What was Keynes’ difficulty with Say’s Law?
6. Keynes maintained that wages and prices were inflexible (rigid) downward. What was the basis for his argument, and what modern theories also support this argument?
7. What is an “unemployment equilibrium”?
8. What is the “marginal propensity to consume”?
9. What is the multiplier, and how does it work?
10. What is the difference between autonomous and induced consumption?
11. What is the role of inventory in the Keynesian framework?

Chapter 10 questions (Fiscal Policy)

13. What is meant by “incomplete crowding-out”?
14. How do we calculate the amount of government spending necessary to close a recessionary gap?
15. What is fiscal policy? What are the lags that affect the implementation and effectiveness of fiscal policy?
16. What is the Laffer Curve and what are its economic implications?
17. In order to move the economy forward by a certain amount of RGDP, policy makers could choose either an increase in government spending or a tax cut. Why must the amount of the tax cut be larger than the increase in government spending?

Chapter 11 questions (Taxation and Budgets)

18. What are progressive, proportional, and regressive tax structures?
19. What is the Rule of 72? How might the Rule of 72 affect or guide our financial decisions?
20. What is the relationship between budget deficits and our national debt?
Problems:

1. Use a Marginal Propensity to Consume of 0.6 for the following problems:
   
a. What level of government spending would be necessary to move an economy from an 
   unemployment equilibrium of $900 billion to a full-employment level of real GDP of 
   $950 billion? What level of tax cuts ......?

   b. What would be the change in real GDP associated with an increase in government 
   spending of $20 billion? ....a tax cut of $20 billion?

2. Use an MPC of 0.75 to answer questions 1a and 1b above.

3. Use the tax table at the bottom of page 272 to calculate the amount of taxes for the following 
   incomes:

   $2000 $4000 $6000 $8000 $10,000 $12,000 $14,000 $16,000

   What are the marginal tax rates and the average tax rates for each level of income.