

# Macroeconomics 2301

## Potential questions and study guide for

### Exam 3

**Any 6 of these questions will be on the exam.**

- 1. Addressing inflation using Fiscal and Monetary Policy tools. Scenario - The US economy is currently experiencing high rates of inflation. You have Fiscal and Monetary policy tools available to address this problem:**
  - a. To attack the problem of inflation you must select one Monetary Policy tool and one Fiscal Policy tool. Write down the name of your Fiscal Policy tool and your Monetary Policy tool.**
    - i. Think the options through and write down your choices.**
  - b. Please explain why you selected the tools that you selected and why you did not select the other choices?**
    - i. Specifically, explain what is so good about the tool you selected and what is not so good about the tools you did not select? Do this for both the Monetary Policy tool and the Fiscal Policy tool. The key here is to use some decision criteria in making your choice.**
  - c. Thoroughly and completely explain how your solution would work to solve the problem of inflation, and indicate the impact your solution would have on at least 5 key economic variables. Be specific.**
    - i. Present this using the chain of events format with up or down arrows to indicate the direction of impact on each variable. I need to see the detail.**
- 2. Addressing recession using Fiscal and Monetary Policy tools. Scenario - The US economy is currently experiencing recession. You have Fiscal and Monetary policy tools available to address this problem:**
  - a. To attack the problem of recession, you must select at least one Monetary Policy tool and one Fiscal Policy tool. Write down the name of your Fiscal Policy tool and your Monetary Policy tool.**
    - i. Think the options through and write down your choices.**

b. Please explain why you selected the tools that you selected and why you did not select the other choices?

- i. Specifically, explain what is so good about the tool you selected and what is not so good about the tools you did not select? Do this for both the Monetary Policy tool and the Fiscal Policy tool. The key here is to use some decision criteria in making your choice.

c. Thoroughly and completely explain how your solution would work to solve the problem of recession, and indicate the impact your solution would have on the key economic variables. Be specific.

- i. Present this using the chain of events format with up or down arrows to indicate the direction of impact on each variable. I need to see the detail.

3. Please list the 4 key supply side growth factors we discussed, and discuss their viability in a slow growth / no growth future.

- a. The slides should provide you with what you need here.
- b. The issue of viability – if the economy is growing slowly or not at all, do we have any chance of achieving success with each of the 4 growth factors? What will likely cause us problems? What approaches could we use to increase our odds of success? You need to think carefully on this one.

4. Creative problem solving scenario #1: The rate of growth in the US economy is currently 0.5% annually. Your mission is to increase our growth rate to at least 4% annually, without setting off unacceptable levels of inflation. You have the tools of fiscal and monetary policy available.

\*\*\*\*Focus on increasing the quantity and / or quality of natural resources as a means to stimulate economic growth.\*\*\*\*

a. Present your solution to the problem – write it down.

*i. Strategy for creating your solution:*

1. First identify a specific natural resource and think through how having more of it or a better quality of it could lead to significantly increasing the GDP growth rate.
2. This will lead you to a general solution to the problem.
3. Determine what will be required to make the solution happen, typically it is money.
4. Think of ways to use your fiscal and monetary policy tools to get the needed money.

5. **To attack the problem you must select at least one Monetary Policy tool and one Fiscal Policy tool.**
- b. Write down the names of the one fiscal policy tool and the one monetary policy tools you picked.
  - i. **Remember – for this question you need one Fiscal Policy tool and one Monetary Policy tool.**
- c. Explain why you picked the tools that you picked and why you did not select the other choices.
  - i. Specifically explain, what is good about the tool you selected and what is not so good about the tools you did not select? Do this for both the monetary and fiscal policy tool that you selected. The key here is to use some decision criteria in making your choice.
- d. Thoroughly and completely explain how your solution would work to solve the problem, and indicate the impact your solution would have on the key economic variables using up or down arrows. Please present your answer using a chain of events format. Be specific. I need to see the detail.

5. Creative problem solving scenario #2: The rate of growth in the US economy is currently 0.5% annually. Your mission is to increase our growth rate to at least 4% annually, without setting off unacceptable levels of inflation. You have the tools of fiscal and monetary policy available.

**\*\*\*\*Focus on increasing the quantity and / or quality of human capital as a means to stimulate economic growth.\*\*\*\***

- a. Present your solution to the problem – write it down.
  - i. **Strategy for creating your solution:**
    1. First think through which approach you want to use – get more workers or improve the quality of the workers you already have, to accomplish the goal of significantly increasing the GDP growth rate.
    2. This will lead you to a general solution to the problem.
    3. Determine what will be required to make the solution happen, typically it is money.
    4. Think of ways to use your fiscal and monetary policy tools to get the needed money.

- 5. To attack the problem you must select at least one Monetary Policy tool and one Fiscal Policy tool.**

  - b. Write down the name(s) of the one fiscal policy tool and the one monetary policy tool that you picked.

    - i. **Remember – for this question you need one Fiscal Policy tool and one Monetary Policy tool.**
  - c. Explain why you picked the tools that you picked, and why you did not select the other choices.

    - i. Specifically explain, what is good about the tool you selected and what is not so good about the tools you did not select? Do this for both the monetary and fiscal policy tool that you selected. The key here is to use some decision criteria in making your choice.
  - d. Thoroughly and completely explain how your solution would work to solve the problem, and indicate the impact your solution would have on the key economic variables using up or down arrows. Please present your answer using a chain of events format. Be specific.
- 6. Over the past few years, several countries have been in danger of defaulting on their national debt.**

**Strategy: use your favorite search engine to identify countries that have already faced this problem. Do a bit of research to support your answers to parts (a) and (b).**

  - a. Pick one country and please discuss what might happen to the economy of that country if it actually defaulted on their debt.
  - b. Please discuss two solutions to solving the default problem along with the impact the solutions might have on at least 5 key economic variables.
- 7. Currently the U.S. national debt is over \$20 Trillion. Many people feel the high level of the national debt is a very bad thing and it should be paid off.**

  - a. List and explain 3 advantages and 3 disadvantages of eliminating the national debt?

    - i. **Think about what the country could do if we did not have the national debt.**
    - ii. **What would we be saving if we had no debt?**

- iii. **Think about the disadvantages of paying the thing off. Where would the money come from? How would we get it? What would it cost just to get the money? What would we lose if we paid it off?**
- b. **What approach would you use to accomplish the elimination of the national debt?**
  - i. **What are the different ways to get the money to pay it off, and what might be the impacts of those approaches?**
  - ii. **Once you had the money, how would you go about paying off the debt?**
  - iii. **What might be the impacts of paying it off?**
- c. **Why did you select the approach that you selected and not the alternatives?**
  - i. **Talk about what was so great about the approach you picked and what was not so great about the approaches you did not pick.**
- d. **Thoroughly and completely explain how your approach would work to eliminate the national debt, and explain the impact your solution would have on at least 5 key economic variables?**
  - i. **Implement your approach and use the what-happens-next approach to capture the detail of how your solution might work.**

**8. Please explain the difference between the transaction demand for money and the asset demand for money, and how they work together to determine the total demand for money.**

- a. **The slides and audio should help with this, as well as other sources of information.**

**9. The Federal Reserve is responsible for managing the U.S. money supply.**

- a. **List and thoroughly explain 5 of the functions of the Federal Reserve System. Be specific.**
  - i. **Use the slides, audio, and the Federal Reserve website for this.**
- b. **Please thoroughly and completely explain how money is created and destroyed.**
  - i. **Please use the slides and audio for this.**

- c. Please thoroughly and completely explain how the Federal Reserve would use the 3 tools of monetary policy to address the problem of recession, including the impact of those tools on the key economic variables. Specifically I want you to explain how each of the 3 tools would work using the chain of events approach.
  - i. Take each of the 3 monetary policy tools and show how each would work to address the problem of recession. Use the what-happens-next approach to ensure that you are being as specific as possible.
- d. Please thoroughly and completely explain how the Federal Reserve would use the 3 tools of monetary policy to address the problem of inflation, including the impact of those tools on the key economic variables. Specifically I want you to explain how each of the 3 tools would work using the chain of events approach.
  - i. Take each of the 3 monetary policy tools and show how each would work to address the problem of inflation. Use the what-happens-next approach to ensure that you are being as specific as possible.

**10. Please select a bill currently in congress and provide an economic impact analysis.**

**Congress.gov is a good place to start. Please be thorough in your analysis. Try to think about how the impacts of this legislation will work its way through our economy and how it will impact people, businesses, the environment, etc. What groups of people will be impacted and how? What industries will be impacted and how? Etc. Be as thorough as possible. We need to be able to complete this type of analysis for the crazy stuff congress does, before the bills get passed so that we can either support them or get them stopped.**