

## **Study Guide Part 3: AS/AD and $MV=PT$**

**The primary study part for AS/AD is chapters 33 and 34. Chapter 35 – which is online, covers the Philips curve, which was done in class (I don't know who does, and does not, have access to that section)**

**Q. What was Friedman's explanation for the great depression (and how we got out of it). – Hint: what happened to  $V$  in  $MV=PT$  (and why), and what did the federal see?**

**Q. What was the Keynesian explanation for the great depression (and how we got out of it) - Hint: Sticky downwards, and the "Paradox of Thrift".**

**Q. Graph out the Keynesian model of wage rigidity – i.e. why Keynes believed that prices in the labor market did not clear- they were "sticky downwards".**

**Q. What is the Philips curve (the link between Inflation and Output). Explain and graph out the original relationship, and explain why it gave economists a "roadmap" to managing the macro-economy. Then explain why it was a mis-specified model, and it only led to a short run increase in output, but a permanent increase in inflation.**

**Q. How would a war change AS/AD for Thailand, be sure to talk about both price and output. Assuming Thailand didn't lose the war, what impact would it have on the standard of living of Thai's?**

**Q. What is fiscal policy, and how can it be used to combat the business cycle?  
What are the problems with fiscal policy, that make it hard to use in practice?**

**Q. What is monetary policy? Why do most countries rely on it to manage the macro-economy?**

**What are the criticisms of Monetary policy, specifically the Friedman Critique and the Lucas Critique**

**Q. What are Rational Expectations, and what do they suggest about econometrics and government policy?**