

Study Guide Part 4: 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 fed 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?

Q. 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?

Q. 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?