WARM UP

- What age range is eligible for the civilian labor force?
- What groups of people are not counted in unemployment?
- What is structural unemployment? Frictional? Cyclical? Seasonal? Technological?
- What is an external shock?
- What were two causes of the Great Depression?
- What officially got the United States out of the Great Depression?

CHAPTER 16

THE COST OF ECONOMIC INSTABILITY

- Stagflation – A period of stagnant growth combined with inflation
- GDP Gap – The difference between the actual GDP and the potential GDP that could be produced if all resources were fully employed
- Misery Index – The sum of the monthly inflation and unemployment rates
  - Also known as the discomfort index
- Uncertainty – When the economy is unstable people are less likely to spend money
- Wasted Resources – Human labor unused during unemployment or factories that remain idle

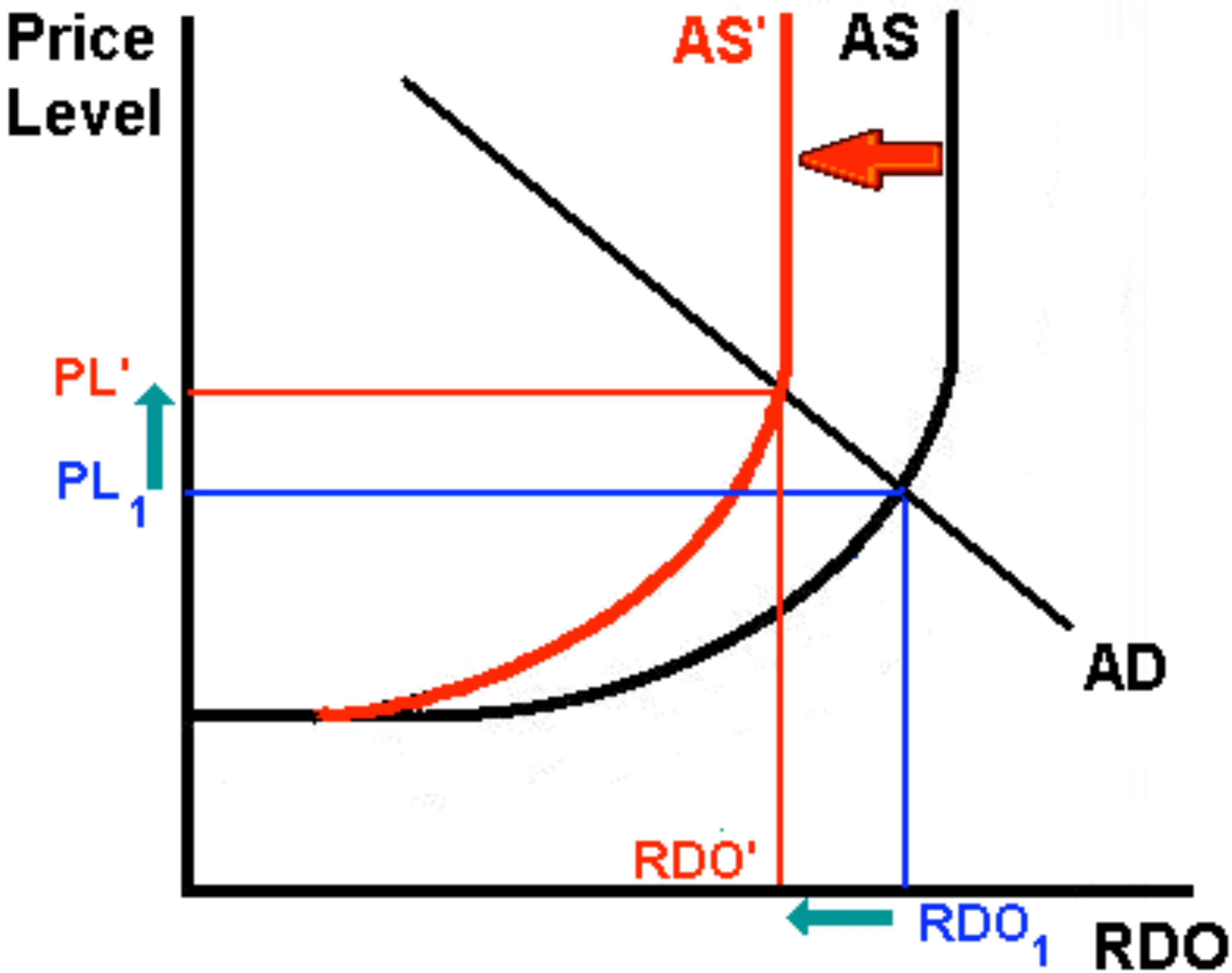
THE COST OF ECONOMIC INSTABILITY

- Political Instability – When the economy is bad voters get angry and the incumbents are usually voted out of office
- Crime – Tends to increase during bad economic times and decrease during good economic times

MACROECONOMIC EQUILIBRIUM

- Aggregate Supply – The total value of goods and services that all firms would produce in a specific period of time at various price levels
- Aggregate Demand – The total quantity of goods and services demanded at different price levels
- Macroeconomic equilibrium – The level of real GDP consistent with a given price level

MACROECONOMIC EQUILIBRIUM



WARM UP

The Civilian Labor Force (CLF) is 845,550. The number of people unemployed is 50,790. What is the unemployment rate?

A stock was purchased for $47.66. Four months later the stock was sold for $45.83. What was the percent change?

Consumer Spending = $9,000,000

Exports = $2,000,000

Government Spending = $8,000,000

Investment Spending = $7,000,000

Imports = $4,000,000

What is the GDP of this nation?

What is the difference between GDP and GNP? What is the difference between Real GDP and Nominal GDP? Which one is a better representation of a

STABILIZATION POLICIES

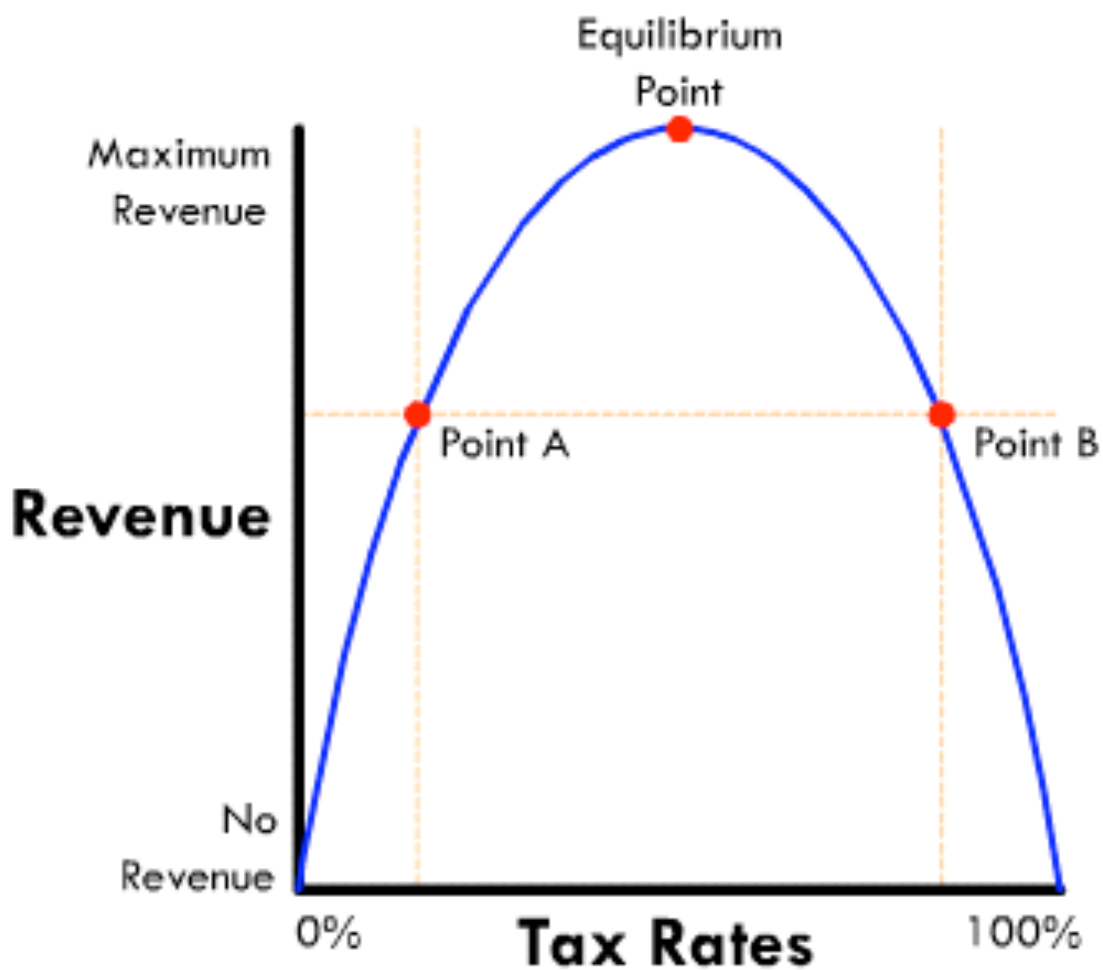
- Fiscal Policy – The federal government's attempt to stabilize the economy through taxing and government spending
- Keynesian Economics (Demand Side Economics) – A set of actions designed to lower unemployment by stimulating aggregate demand
- Remember this equation GDP = C + I + G + (X – M)
  - Keynes argued that (X-M) was too small to worry about
  - (G) was the most important stimulation to the economy
  - (C) was the most stable of all
  - (I) was to blame for instability
  - Keynes argued that not only was (I) unstable it affected all other spending
  - Keynes also argued that it was the government's role to

STABILIZATION POLICIES

- Multiplier – When a change in (I) affects (C), (G) and (X-M)
- Accelerator – the change in investment spending caused by a change in total spending
- Automatic Stabilizers – Programs that automatically trigger benefits if changes in the economy threaten income
  - Unemployment Insurance – Insurance for workers who lose their job through no fault of their own
  - Federal Entitlement Programs – Welfare, Medicaid, etc.
  - Progressive Income Tax – Tax the rich more than the poor

STABILIZATION POLICIES

- Supply-Side Economics – Policies designed to stimulate output and lower unemployment by increasing production rather than demand
- Laffer Curve



STABILIZATION POLICIES

- Supply Side Economics – Government should have a reduced role in economics and that taxes should be reduced to relieve the burden on individuals and businesses
- Reaganomics – Another name for supply side economics
- Limitations of Supply-Side Policies
  - Hasn’t seen a lot of experience
  - Collects less taxation
  - More for promoting growth than to remedy instability

STABILIZATION POLICIES

- Monetarism – fluctuations in the money supply can be a destabilizing element that leads to unemployment and inflation
- Wage-Price Controls – Regulations that make it illegal for businesses to give workers raises or to raise prices without the explicit permission of the government
  - When this was attempted it did not control inflation
  - Increasing the money supply is only a short term solution to unemployment that actually causes big long term problems

ECONOMICS AND POLITICS

- Discretionary Fiscal Policy – Someone must choose to implement
- Passive Fiscal Policy – Does not require new or special action to take place
- Structural Fiscal Policy – Plans and programs put into place to strengthen the economy
- The Decline of Discretionary Fiscal Policy
  - Recognition Lag - The time between the beginning of the recession or inflationary period up to the awareness actually happening
  - Implementation Lag – The time in which it takes to put fiscal policy into action
  - Recessions tend to be short so little action is taken
  - Bipartisanship rarely exists anymore – Federal Budgets can’t be

- The Importance of Passive Fiscal Policies
  - Automatic Stabilizers – Unemployment, Social Security, etc.
- Structural Fiscal Policies – Usually designed to strengthen the economy in the long run
  - Health Care, Welfare, Assistance for the needy
- Most Fiscal policy has been dominated by the Federal Reserve in recent years

- All Content Created by DJ Cook