

Unit 6 Study Guide: Political Economy

WTP Ch. 26 – Fiscal Policy

WTP Ch. 27 – Monetary Policy

Notes on Economics:

Vocabulary:

1. Scarcity
2. Supply
3. Demand
4. Circular Flow of Economic Goods and Services
5. Price
6. Surplus
7. Shortage
8. Recession
9. Unemployment
10. Government stimulus package
11. Inflation
12. Stock Market
13. Bull Market
14. Bear Market

Questions:

1. *How is economic growth related to the size of the population?*
2. *What are the three components of the Circular flow of Economic Goods and Services?*
3. *Which component of the Circular Flow model is the least predictable?*
4. *Which component of the Circular flow model is the easiest to control/manipulate?*

WTP Ch. 26: The Government's Use of Fiscal Policy

Vocabulary:

1. Laissez Faire capitalism
2. Public goods
3. Graduated tax
4. Taxes
5. Bonds
6. Expansionary policy
7. Contractionary policy
8. Aggregate demand
9. Fiscal policy
10. Depression
11. Inflation

Questions:

1. *What should the federal government do with taxing when inflation is high?*
2. *What should the federal government do with spending when in recession?*
3. *What should the federal government do with taxing when unemployment is on the rise?*
4. *What should the federal government do with spending when the stock market is hot?*
5. *If you want to bring aggregate demand down, what two policies should you consider to do so?*

6. *What are the two policies that make up an expansionary policy?*

WTP Ch. 27: The Government's Use of Monetary Policy

Vocabulary:

1. Federal Reserve Act, 1913
2. Federal Reserve Banks
3. Monetary policy
4. Federal Reserve Bank (the FED)
5. Reserve Requirement
6. Discount Rate
7. Open Market Committee

Questions:

1. *The FED wants to bring inflation down. What action should the Open Market Committee take?*
2. *The FED wants to stimulate the economy during a recession. What should they do with the reserve requirement?*
3. *The FED is worried that the economy is getting too strong. What should they do to the discount rate?*
4. *The Stock Market is in chaos as panic grips Wall Street (prices are in freefall). What action should the Open Market Committee take?*
5. *Fourth quarter earnings are at record levels. The Stock Market is experiencing the strongest bull market in over a decade. What should the FED consider doing with the reserve requirement?*