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«Житомирська політехніка»  
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BACHELOR  
051 «Economics»  
Faculty of Accounting and Finance  
Department of International Economic Relations

Розглянуто і рекомендовано  
на засіданні кафедри міжнародних  
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<b>Zhytomyr Politechnic</b>	<b>Ministry of Education and Science of Ukraine Zhytomyr Politechnic State University”</b>
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## **2. Purpose of Discipline**

The purpose of the discipline "Economics" is to train economic experts with knowledge of the essence of economic processes in the modern world.

The main tasks of studying the discipline "Economics" are to study the current forms and tendencies of development of economic relations as a global system of relationships that span the world economy; study of theoretical bases of development of economic relations; students acquire skills to use the basic tools of modern qualitative and quantitative analysis of economic relations; familiarization with the contemporary practice of theoretical and empirical studies of economic relations at the micro and macro levels.

## ***2. INFORMATION ABOUT DISCIPLINE***

### **Topic 1. The ten principles of economics**

1. How people make decisions
2. How people interact
3. How the economy works

#### **Quastions**

1. Give three examples of important trade-offs that you face in your life.
2. What items would you include to figure out the opportunity cost of a vacation to Disneyworld?
3. Water is necessary for life. Is the marginal benefit of a glass of water large or small?
4. Why should policymakers think about incentives?
5. Why isn't trade among countries like a game with some winners and some losers?
6. What does the “invisible hand” of the marketplace do?
7. Explain the two main causes of market failure and give an example of each.
8. Why is productivity important?
9. What is inflation and what causes it?
10. How are inflation and unemployment related in the short run?

### **Topic 2. Think like an economist**

1. Economists as scientists
2. Economists as policy advisers
3. Why economists disagree with each other

#### **Quastions**

1. How is economics a science?
2. Why do economists make assumptions?
3. Should an economic model describe reality exactly?
4. Name a way that your family interacts in the factor market and a way that it interacts in the product market.
5. Name one economic interaction that isn't covered by the simplified circular-flow diagram.

6. Draw and explain a production possibilities frontier for an economy that produces milk and cookies. What happens to this frontier if disease kills half of the economy's cows?
7. Use a production possibilities frontier to describe the idea of “efficiency.”
8. What are the two subfields into which economics is divided? Explain what each subfield studies.
9. What is the difference between a positive and a normative statement? Give an example of each.
10. Why do economists sometimes offer conflicting advice to policymakers?

### **Topic 3. Interdependence and benefits of trade**

1. History of the modern economy
2. Comparative advantages
3. Apply comparative advantages

#### **Questions**

1. Under what conditions is the production possibilities frontier linear rather than bowed out?
2. Explain how absolute advantage and comparative advantage differ.
3. Give an example in which one person has an absolute advantage in doing something but another person has a comparative advantage.
4. Is absolute advantage or comparative advantage more important for trade? Explain your reasoning using the example in your answer to Question 3.
5. If two parties trade based on comparative advantage and both gain, in what range must the price of the trade lie?
6. Why do economists oppose policies that restrict trade among nations?

### **Topic 4. Market forces of supply and demand**

1. Markets and competition
2. Demand
3. Supply
4. Demand-supply interaction

#### **Questions**

1. What is a competitive market? Briefly describe a type of market that is not perfectly competitive.
2. What are the demand schedule and the demand curve, and how are they related? Why does the demand curve slope downward?
3. Does a change in consumers' tastes lead to a movement along the demand curve or a shift in the demand curve? Does a change in price lead to a movement along the demand curve or a shift in the demand curve? Explain your answers.
4. Popeye's income declines, and as a result, he buys more spinach. Is spinach an inferior or a normal good? What happens to Popeye's demand curve for spinach?
5. What are the supply schedule and the supply curve, and how are they related? Why does the supply curve slope upward?
6. Does a change in producers' technology lead to a movement along the supply curve or a shift in the supply curve? Does a change in price lead to a movement along the supply curve or a shift in the supply curve?
7. Define the equilibrium of a market. Describe the forces that move a market toward its equilibrium.
8. Beer and pizza are complements because they are often enjoyed together. When the price of beer rises, what happens to the supply, demand, quantity supplied, quantity demanded, and price in the market for pizza?
9. Describe the role of prices in market economies.

### **Topic 5. Elasticity and its application**

1. Elasticity of demand
2. Elasticity of supply
3. Demand, supply and elasticity

### **Questions**

1. Define the price elasticity of demand and the income elasticity of demand.
2. List and explain the four determinants of the price elasticity of demand discussed in the chapter.
3. If the elasticity is greater than 1, is demand elastic or inelastic? If the elasticity equals zero, is demand perfectly elastic or perfectly inelastic?
4. On a supply-and-demand diagram, show equilibrium price, equilibrium quantity, and the total revenue received by producers.
5. If demand is elastic, how will an increase in price change total revenue? Explain.

6. What do we call a good with an income elasticity less than zero?
7. How is the price elasticity of supply calculated? Explain what it measures.
8. If a fixed quantity of a good is available, and no more can be made, what is the price elasticity of supply?
9. A storm destroys half the fava bean crop. Is this event more likely to hurt fava bean farmers if the demand for fava beans is very elastic or very inelastic? Explain.

### **Topic 6. Demand, Supply and Government Policies**

1. Price control
2. Taxes

#### **Questions**

1. Give an example of a price ceiling and an example of a price floor.
2. Which causes a shortage of a good—a price ceiling or a price floor? Justify your answer with a graph.
3. What mechanisms allocate resources when the price of a good is not allowed to bring supply and demand into equilibrium?
4. Explain why economists usually oppose controls on prices.
5. Suppose the government removes a tax on buyers of a good and levies a tax of the same size on sellers of the good. How does this change in tax policy affect the price that buyers pay sellers for this good, the amount buyers are out of pocket (including any tax payments they make), the amount sellers receive (net of any tax payments they make), and the quantity of the good sold?
6. How does a tax on a good affect the price paid by buyers, the price received by sellers, and the quantity sold?
7. What determines how the burden of a tax is divided between buyers and sellers? Why?

### **Topic 7. Buyers, Sellers and Market Performance**

1. Excess demand
2. Excess supply
3. Market efficiency

#### **Questions**

1. Explain how buyers’ willingness to pay, consumer surplus, and the demand curve are related.
2. Explain how sellers’ costs, producer surplus, and the supply curve are related.
3. In a supply-and-demand diagram, show producer and consumer surplus in the market equilibrium
4. What is efficiency? Is it the only goal of economic policymakers?
5. Name two types of market failure. Explain why each may cause market outcomes to be inefficient.

### **Topic 8. Tax effectiveness**

1. Losses from excessive taxation
2. Factors of losses from excessive taxation
3. Variety of losses on revenues from different tax systems

### **Quastions**

1. What happens to consumer and producer surplus when the sale of a good is taxed? How does the change in consumer and producer surplus compare to the tax revenue? Explain.
2. Draw a supply-and-demand diagram with a tax on the sale of a good. Show the deadweight loss. Show the tax revenue.
3. How do the elasticities of supply and demand affect the deadweight loss of a tax? Why do they have this effect?
4. Why do experts disagree about whether labor taxes have small or large deadweight losses?
5. What happens to the deadweight loss and tax revenue when a tax is increased?

### **Topic 9. International trade**

1. Factors of international trade

2. Trade losses and gains
3. Factors of trade restrictions

### **Questions**

1. What does the domestic price that prevails without international trade tell us about a nation's comparative advantage?
2. When does a country become an exporter of a good? An importer?
3. Draw the supply-and-demand diagram for an importing country. What is consumer surplus and producer surplus before trade is allowed? What is consumer surplus and producer surplus with free trade? What is the change in total surplus?
4. Describe what a tariff is and its economic effects.
5. List five arguments often given to support trade restrictions. How do economists respond to these arguments?
6. What is the difference between the unilateral and multilateral approaches to achieving free trade? Give an example of each.

### **Topic 10. Economic externalities**

1. Externalities and market efficiency
2. Public policies on externalities
3. Private decisions on externalities

### **Questions**

1. Give an example of a negative externality and an example of a positive externality.
2. Draw a supply-and-demand diagram to explain the effect of a negative externality that occurs as a result of a firm's production process.
3. In what way does the patent system help society solve an externality problem?
4. What are corrective taxes? Why do economists prefer them to regulations as a way to protect the environment from pollution?
5. List some of the ways that the problems caused by externalities can be solved without government intervention.



6. Imagine that you are a nonsmoker sharing a room with a smoker. According to the Coase theorem, what determines whether your roommate smokes in the room? Is this outcome efficient? How do you and your roommate reach this solution?

### **Topic 11. Public goods and public resources**

1. Varieties of benefits
2. Public goods
3. Public resources

#### **Questions**

1. Explain what is meant by a good being “excludable.” Explain what is meant by a good being “rival in consumption.” Is a slice of pizza excludable? Is it rival in consumption?
2. Define and give an example of a public good. Can the private market provide this good on its own? Explain.
3. What is cost–benefit analysis of public goods? Why is it important? Why is it hard?
4. Define and give an example of a common resource. Without government intervention, will people use this good too much or too little? Why?

### **Topic 12. Design of the tax system**

1. Taxes and efficiency
2. Taxes and equality

#### **Questions**

1. Over the past century, has the government’s tax revenue grown more or less slowly than the rest of the economy?
2. Explain how corporate profits are taxed twice.
3. Why is the burden of a tax to taxpayers greater than the revenue received by the government?
4. Why do some economists advocate taxing consumption rather than income?

5. What is the marginal tax rate on a lump-sum tax? How is this related to the efficiency of the tax?
6. Give two arguments why wealthy taxpayers should pay more taxes than poor taxpayers.
7. What is the concept of horizontal equity and why is it hard to apply?

### **Topic 13. Production costs**

1. The essence of costs
2. Production and costs
3. Types of costs
4. Production costs in the short and long term

### **Questions**

1. What is the relationship between a firm's total revenue, profit, and total cost?
2. Give an example of an opportunity cost that an accountant might not count as a cost. Why would the accountant ignore this cost?
3. What is marginal product, and what does it mean if it is diminishing?
4. Draw a production function that exhibits diminishing marginal product of labor. Draw the associated total cost curve. (In both cases, be sure to label the axes.) Explain the shapes of the two curves you have drawn.
5. Define total cost, average total cost, and marginal cost. How are they related?
6. Draw the marginal-cost and average-total-cost curves for a typical firm. Explain why the curves have the shapes that they do and why they cross where they do.
7. How and why does a firm's average-total-cost curve differ in the short run and in the long run?
8. Define economies of scale and explain why they might arise. Define diseconomies of scale and explain why they might arise.

### **Topic 14. Firms in the competitive market**

1. What is a competitive market
2. Profit maximization
3. The supply curve in a competitive market

### **Questions**

1. What are the main characteristics of a competitive market?
2. Explain the difference between a firm's revenue and its profit. Which do firms maximize?
3. Draw the cost curves for a typical firm. Explain how a competitive firm chooses the level of output that maximizes profit. At that level of output, show on your graph the firm's total revenue and total costs.
4. Under what conditions will a firm shut down temporarily? Explain.
5. Under what conditions will a firm exit a market? Explain.
6. Does a competitive firm's price equal its marginal cost in the short run, in the long run, or both? Explain.
7. Does a competitive firm's price equal the minimum of its average total cost in the short run, in the long run, or both? Explain.
8. Are market supply curves typically more elastic in the short run or in the long run? Explain.

### **Topic 15. Monopoly**

1. Why monopolies arise
2. As monopolies determine output and price
3. The cost of monopoly
4. Price discrimination
5. Public policy on monopolies

### **Questions**

1. Give an example of a government-created monopoly. Is creating this monopoly necessarily bad public policy? Explain.
2. Define natural monopoly. What does the size of a market have to do with whether an industry is a natural monopoly?
3. Why is a monopolist's marginal revenue less than the price of its good? Can marginal revenue ever be negative? Explain.
4. Draw the demand, marginal-revenue, average-total-cost, and marginal-cost curves for a monopolist. Show the profit-maximizing level of output, the profit-maximizing price, and the amount of profit.
5. In your diagram from the previous question, show the level of output that maximizes total surplus. Show the deadweight loss from the monopoly. Explain your answer.

6. Give two examples of price discrimination. In each case, explain why the monopolist chooses to follow this business strategy.

7. What gives the government the power to regulate mergers between firms? Give a good reason and a bad reason (from the perspective of society’s welfare) that two firms might want to merge.

8. Describe the two problems that arise when regulators tell a natural monopoly that it must set a price equal to marginal cost.

### **Topic 16. Monopolistic competition**

1. Between monopoly and perfect competition
2. Competition with differentiated products
3. Advertising

### **Questions**

1. Describe the three attributes of monopolistic competition. How is monopolistic competition like monopoly? How is it like perfect competition?

2. Draw a diagram depicting a firm that is making a profit in a monopolistically competitive market. Now show what happens to this firm as new firms enter the industry.

3. Draw a diagram of the long-run equilibrium in a monopolistically competitive market. How is price related to average total cost? How is price related to marginal cost?

4. Does a monopolistic competitor produce too much or too little output compared to the most efficient level? What practical considerations make it difficult for policymakers to solve this problem?

5. How might advertising reduce economic well-being? How might advertising increase economic well-being?

6. How might advertising with no apparent informational content in fact convey information to consumers?

7. Explain two benefits that might arise from the existence of brand names.

### **Topic 17. Oligopoly**

1. Markets with multiple sellers
2. The economy of cooperation
3. Public policy on oligopolies

### **Questions**

1. If a group of sellers could form a cartel, what quantity and price would they try to set?
2. Compare the quantity and price of an oligopoly to those of a monopoly.
3. Compare the quantity and price of an oligopoly to those of a competitive market.
4. How does the number of firms in an oligopoly affect the outcome in its market?
5. What is the prisoners' dilemma, and what does it have to do with oligopoly?
6. Give two examples other than oligopoly that show how the prisoners' dilemma helps to explain behavior.
7. What kinds of behavior do the antitrust laws prohibit?

### **Topic 18. Market of factors of production**

1. Demand for labor
2. Labor supply
3. Balance in the labor market
4. Other factors of production: land and capital

### **Questions**

1. Explain how a firm's production function is related to its marginal product of labor, how a firm's marginal product of labor is related to the value of its marginal product, and how a firm's value of marginal product is related to its demand for labor.
2. Give two examples of events that could shift the demand for labor, and explain why they do so.
3. Give two examples of events that could shift the supply of labor, and explain why they do so.
4. Explain how the wage can adjust to balance the supply and demand for labor while simultaneously equaling the value of the marginal product of labor.
5. If the population of the United States suddenly grew because of a large wave of immigration, what would happen to wages? What would happen to the rents earned by the owners of land and capital?

### **Topic 19. Income and Inequality**

1. Factors of equilibrium wages
2. The economy of inequality

### Questions

1. Why are coal miners paid more than other workers with similar amounts of education?
2. In what sense is education a type of capital?
3. How might education raise a worker's wage without raising the worker's productivity?
4. What conditions lead to highly compensated superstars? Would you expect to see superstars in dentistry? In music? Explain.
5. Give three reasons a worker's wage might be above the level that balances supply and demand.
6. What difficulties arise in deciding whether a group of workers has a lower wage because of discrimination?
7. Do the forces of economic competition tend to exacerbate or ameliorate discrimination based on race?
8. Give an example of how discrimination might persist in a competitive market.

### Topic 20. Income inequality and poverty

1. Determination of inequality
2. The political philosophy of income sharing
3. Poverty reduction policies

### Questions

1. Does the richest fifth of the U.S. population earn closer to three, six, or twelve times the income of the poorest fifth?
2. What has happened to the income share of the richest fifth of the U.S. population over the past 40 years?
3. What groups in the U.S. population are most likely to live in poverty?
4. When gauging the amount of inequality, why do transitory and life cycle variations in income cause difficulties?
5. How would a utilitarian, a liberal, and a libertarian each determine how much income inequality is permissible?
6. What are the pros and cons of in-kind (rather than cash) transfers to the poor?
7. Describe how antipoverty programs can discourage the poor from working. How might you reduce this disincentive? What are the disadvantages of your proposed policy?

### **Topic 21. Consumer choice theory**

1. Budget constraint
2. Consumer wishes
3. Optimization of consumer choice

#### **Quastions**

1. A consumer has income of \$3,000. Wine costs \$3 per glass, and cheese costs \$6 per pound. Draw the consumer's budget constraint with wine on the vertical axis. What is the slope of this budget constraint?
2. Draw a consumer's indifference curves for wine and cheese. Describe and explain four properties of these indifference curves.
3. Pick a point on an indifference curve for wine and cheese and show the marginal rate of substitution. What does the marginal rate of substitution tell us?
4. Show a consumer's budget constraint and indifference curves for wine and cheese. Show the optimal consumption choice. If the price of wine is \$3 per glass and the price of cheese is \$6 per pound, what is the marginal rate of substitution at this optimum?
5. A person who consumes wine and cheese gets a raise, so her income increases from \$3,000 to \$4,000. Show what happens if both wine and cheese are normal goods. Now show what happens if cheese is an inferior good.
6. The price of cheese rises from \$6 to \$10 per pound, while the price of wine remains \$3 per glass. For a consumer with a constant income of \$3,000, show what happens to consumption of wine and cheese. Decompose the change into income and substitution effects.
7. Can an increase in the price of cheese possibly induce a consumer to buy more cheese? Explain.

### **Topic 22. Microeconomic constraints**

1. Asymmetry of information
2. Political economy
3. Behavioral Economics

#### **Quastions**

1. What is moral hazard? List three things an employer might do to reduce the severity of this problem.

2. What is adverse selection? Give an example of a market in which adverse selection might be a problem.
3. Define signaling and screening and give an example of each.
4. What unusual property of voting did Condorcet notice?
5. Explain why majority rule respects the preferences of the median voter rather than the average voter.
6. Describe the ultimatum game. What outcome from this game would conventional economic theory predict? Do experiments confirm this prediction? Explain.

### **Topic 23. National income**

1. Revenues and expenditures in the economic system
2. Components of GDP
3. Real and nominal GDP
4. Is GDP a good measure of economic well-being

### **Questions**

1. Explain why an economy's income must equal its expenditure.
2. Which contributes more to GDP—the production of an economy car or the production of a luxury car? Why?
3. A farmer sells wheat to a baker for \$2. The baker uses the wheat to make bread, which is sold for \$3. What is the total contribution of these transactions to GDP?
4. Many years ago, Peggy paid \$500 to put together a record collection. Today, she sold her albums at a garage sale for \$100. How does this sale affect current GDP?
5. List the four components of GDP. Give an example of each.
6. Why do economists use real GDP rather than nominal GDP to gauge economic well-being?
7. In the year 2013, the economy produces 100 loaves of bread that sell for \$2 each. In the year 2014, the economy produces 200 loaves of bread that sell for \$3 each. Calculate nominal GDP, real GDP, and the GDP deflator for each year. (Use 2013 as the base year.) By what percentage does each of these three statistics rise from one year to the next?
8. Why is it desirable for a country to have a large GDP? Give an example of something that would raise GDP and yet be undesirable.

### **Topic 24. Cost of living**



1. Consumer Price Index
2. Adjusting economic indicators for the inflation index

### **Questions**

1. Which do you think has a greater effect on the consumer price index: a 10 percent increase in the price of chicken or a 10 percent increase in the price of caviar? Why?
2. Describe the three problems that make the consumer price index an imperfect measure of the cost of living.
3. If the price of imported French wine rises, is the consumer price index or the GDP deflator affected more? Why?
4. Over a long period of time, the price of a candy bar rose from \$0.20 to \$1.20. Over the same period, the consumer price index rose from 150 to 300. Adjusted for overall inflation, how much did the price of the candy bar change?
5. Explain the meaning of nominal interest rate and real interest rate. How are they related?

### **Topic 25. Production and growth**

1. Economic growth in the world
2. The values and factors of productivity
3. Economic growth and public policy

### **Questions**

1. What does the level of a nation's GDP measure? What does the growth rate of GDP measure? Would you rather live in a nation with a high level of GDP and a low growth rate or in a nation with a low level of GDP and a high growth rate?
2. List and describe four determinants of productivity.
3. In what way is a college degree a form of capital?
4. Explain how higher saving leads to a higher standard of living. What might deter a policymaker from trying to raise the rate of saving?
5. Does a higher rate of saving lead to higher growth temporarily or indefinitely?
6. Why would removing a trade restriction, such as a tariff, lead to more rapid economic growth?
7. How does the rate of population growth influence the level of GDP per person?
8. Describe two ways the U.S. government tries to encourage advances in technological knowledge.

### **Topic 26. Savings, Investments and the Financial System**

1. Savings and investments in the national income account
2. Credit market

#### **Quastions**

1. What is the role of the financial system? Name and describe two markets that are part of the financial system in the U.S. economy. Name and describe two financial intermediaries.
2. Why is it important for people who own stocks and bonds to diversify their holdings? What type of financial institution makes diversification easier?
3. What is national saving? What is private saving? What is public saving? How are these three variables related?
4. What is investment? How is it related to national saving in a closed economy?
5. Describe a change in the tax code that might increase private saving. If this policy were implemented, how would it affect the market for loanable funds?
6. What is a government budget deficit? How does it affect interest rates, investment, and economic growth?

### **Topic 27. Basic Financial Instruments**

1. Present value
2. Risk management
3. Valuation of assets

#### **Quastions**

1. The interest rate is 7 percent. Use the concept of present value to compare \$200 to be received in 10 years and \$300 to be received in 20 years.
2. What benefit do people get from the market for insurance? What two problems impede the insurance market from working perfectly?
3. What is diversification? Does a stockholder get a greater benefit from diversification going from 1 to 10 stocks or going from 100 to 120 stocks?
4. Comparing stocks and government bonds, which type of asset has more risk? Which pays a higher average return?
5. What factors should a stock analyst think about in determining the value of a share of stock?

6. Describe the efficient markets hypothesis and give a piece of evidence consistent with this hypothesis.

7. Explain the view of those economists who are skeptical of the efficient markets hypothesis.

### **Topic 28. Unemployment**

1. The essence of unemployment
2. Job search
3. The law of minimum wage
4. Trade unions
5. The theory of effective wages

### **Questions**

1. What are the three categories into which the Bureau of Labor Statistics divides everyone? How does the BLS compute the labor force, the unemployment rate, and the labor-force participation rate?
2. Is unemployment typically short-term or long-term? Explain.
3. Why is frictional unemployment inevitable? How might the government reduce the amount of frictional unemployment?
4. Are minimum-wage laws a better explanation for structural unemployment among teenagers or among college graduates? Why?
5. How do unions affect the natural rate of unemployment?
6. What claims do advocates of unions make to argue that unions are good for the economy?
7. Explain four ways in which a firm might increase its profits by raising the wages it pays.

### **Topic 29. Monetary system**

1. The essence of money
2. Banks and money supply
3. Monetary policy instruments

### **Questions**

1. What distinguishes money from other assets in the economy?

2. What is commodity money? What is fiat money? Which kind do we use?
3. What are demand deposits and why should they be included in the stock of money?
4. Who is responsible for setting monetary policy in the United States? How is this group chosen?
5. If the Fed wants to increase the money supply with open-market operations, what does it do?
6. Why don't banks hold 100 percent reserves? How is the amount of reserves banks hold related to the amount of money the banking system creates?
7. Bank A has a leverage ratio of 10, while Bank B has a leverage ratio of 20. Similar losses on bank loans at the two banks cause the value of their assets to fall by 7 percent. Which bank shows a larger change in bank capital? Does either bank remain solvent? Explain.
8. What is the discount rate? What happens to the money supply when the Fed raises the discount rate?
9. What are reserve requirements? What happens to the money supply when the Fed raises reserve requirements?
10. Why can't the Fed control the money supply perfectly?

### **Topic 30. Money supply and inflation**

1. The classical theory of inflation
2. The price of inflation

### **Questions**

1. Explain how an increase in the price level affects the real value of money.
2. According to the quantity theory of money, what is the effect of an increase in the quantity of money?
3. Explain the difference between nominal and real variables and give two examples of each. According to the principle of monetary neutrality, which variables are affected by changes in the quantity of money?
4. In what sense is inflation like a tax? How does thinking about inflation as a tax help explain hyperinflation?
5. According to the Fisher effect, how does an increase in the inflation rate affect the real interest rate and the nominal interest rate?
6. What are the costs of inflation? Which of these costs do you think are most important for the U.S. economy?
7. If inflation is less than expected, who benefits—debtors or creditors? Explain.

**Topic 31. Fundamentals of Macroeconomics**

1. International movement of goods and capital
2. International transaction price: real and nominal exchange rates
3. Purchasing power parity

**Questions**

1. Define net exports and net capital outflow. Explain how and why they are related.
2. Explain the relationship among saving, investment, and net capital outflow.
3. If a Japanese car costs 500,000 yen, a similar American car costs \$10,000, and a dollar can buy 100 yen, what are the nominal and real exchange rates?
4. Describe the economic logic behind the theory of purchasing-power parity.
5. If the Fed started printing large quantities of U.S. dollars, what would happen to the number of Japanese yen a dollar could buy? Why?

**Topic 32. Macroeconomics of an Open Economic System**

1. Money supply and demand in the international money market
2. Equilibrium in an open economy
3. What affects the economy

**Questions**

1. Describe supply and demand in the market for loanable funds and the market for foreign-currency exchange. How are these markets linked?
2. Why are budget deficits and trade deficits sometimes called the twin deficits?
3. Suppose that a textile workers' union encourages people to buy only American-made clothes. What would this policy do to the trade balance and the real exchange rate? What is the impact on the textile industry? What is the impact on the auto industry?
4. What is capital flight? When a country experiences capital flight, what is the effect on its interest rate and exchange rate?

### **Topic 33. Aggregate Demand and Aggregate Supply**

1. Economic fluctuations
2. Economic fluctuations in the short term
3. The aggregate demand curve
4. Curve of aggregate supply
5. Causes of economic fluctuations

#### **Questions**

1. Name two macroeconomic variables that decline when the economy goes into a recession. Name one macroeconomic variable that rises during a recession.
2. Draw a diagram with aggregate demand, short-run aggregate supply, and long-run aggregate supply. Be careful to label the axes correctly.
3. List and explain the three reasons the aggregatedemand curve slopes downward.
4. Explain why the long-run aggregate-supply curve is vertical.
5. List and explain the three theories for why the shortrun aggregate-supply curve slopes upward.
6. What might shift the aggregate-demand curve to the left? Use the model of aggregate demand and aggregate supply to trace through the short-run and long-run effects of such a shift on output and the price level.
7. What might shift the aggregate-supply curve to the left? Use the model of aggregate demand and aggregate supply to trace through the short-run and long-run effects of such a shift on output and the price level.

### **Topic 34. Impact of monetary and fiscal policy on aggregate demand**

1. Impact of monetary policy on aggregate demand
2. The impact of fiscal policy on aggregate demand
3. Using policies to stabilize the economy

#### **Questions**

1. What is the theory of liquidity preference? How does it help explain the downward slope of the aggregatedemand curve?
2. Use the theory of liquidity preference to explain how a decrease in the money supply affects the aggregatedemand curve.
3. The government spends \$3 billion to buy police cars. Explain why aggregate demand might increase by more than \$3 billion. Explain why aggregate demand might increase by less than \$3 billion.

4. Suppose that survey measures of consumer confidence indicate a wave of pessimism is sweeping the country. If policymakers do nothing, what will happen to aggregate demand? What should the Fed do if it wants to stabilize aggregate demand? If the Fed does nothing, what might Congress do to stabilize aggregate demand?

5. Give an example of a government policy that acts as an automatic stabilizer. Explain why the policy has this effect.

### **Topic 35. Inflation and unemployment in the short term**

1. Phillips curve
2. The role of expectations
3. The role of the proposal
4. The price of inflation

#### **Quastions**

1. Draw the short-run trade-off between inflation and unemployment. How might the Fed move the economy from one point on this curve to another?

2. Draw the long-run trade-off between inflation and unemployment. Explain how the short-run and long-run trade-offs are related.

3. What is “natural” about the natural rate of unemployment? Why might the natural rate of unemployment differ across countries?

4. Suppose a drought destroys farm crops and drives up the price of food. What is the effect on the short-run trade-off between inflation and unemployment?

5. The Fed decides to reduce inflation. Use the Phillips curve to show the short-run and long-run effects of this policy. How might the short-run costs be reduced?

### **Topic 36. Macroeconomic Policy Issues**

1. Should monetary and fiscal policymakers try to stabilize the economy
2. Should the state fight the recession
3. Should monetary policy be guided by rules or decisions

#### **Quastions**

1. What causes the lags in the effect of monetary and fiscal policy on aggregate demand? What are the implications of these lags for the debate over active versus passive policy?

2. According to traditional Keynesian analysis, why does a tax cut have a smaller effect on GDP than a similarly sized increase in government spending? Why might the opposite be the case?
3. What might motivate a central banker to cause a political business cycle? What does the political business cycle imply for the debate over policy rules?
4. Explain how credibility might affect the cost of reducing inflation.
5. Why are some economists against a target of zero inflation?
6. Explain two ways in which a government budget deficit hurts a future worker.
7. What are two situations in which most economists view a budget deficit as justifiable?
8. Some economists say that the government can continue running a budget deficit forever. How is that possible?
9. Some income from capital is taxed twice. Explain.
10. What adverse effect might be caused by tax incentives to increase saving?



**Topic 1. The ten principles of economics**

1. How people make decisions
2. How people interact
3. How the economy works

**Topic 2. Think like an economist**

1. Economists as scientists
2. Economists as policy advisers
3. Why economists disagree with each other

**Topic 3. Interdependence and benefits of trade**

1. History of the modern economy
2. Comparative advantages
3. Apply comparative advantages

**Topic 4. Market forces of supply and demand**

1. Markets and competition
2. Demand
3. Supply
4. Demand-supply interaction

**Topic 5. Elasticity and its application**

1. Elasticity of demand
2. Elasticity of supply
3. Demand, supply and elasticity

**Topic 6. Demand, Supply and Government Policies**

1. Price control
2. Taxes

**Topic 7. Buyers, Sellers and Market Performance**

1. Excess demand
2. Excess supply
3. Market efficiency

**Topic 8. Tax effectiveness**

1. Losses from excessive taxation
2. Factors of losses from excessive taxation
3. Variety of losses on revenues from different tax systems

**Topic 9. International trade**

1. Factors of international trade
2. Trade losses and gains
3. Factors of trade restrictions

**Topic 10. Economic externalities**

1. Externalities and market efficiency
2. Public policies on externalities

3. Private decisions on externalities

**Topic 11. Public goods and public resources**

1. Varieties of benefits

2. Public goods

3. Public resources

**Topic 12. Design of the tax system**

1. Taxes and efficiency

2. Taxes and equality

**Topic 13. Production costs**

1. The essence of costs

2. Production and costs

3. Types of costs

4. Production costs in the short and long term

**Topic 14. Firms in the competitive market**

1. What is a competitive market

2. Profit maximization

3. The supply curve in a competitive market

**Topic 15. Monopoly**

1. Why monopolies arise

2. As monopolies determine output and price

3. The cost of monopoly

4. Price discrimination

5. Public policy on monopolies

**Topic 16. Monopolistic competition**

1. Between monopoly and perfect competition

2. Competition with differentiated products

3. Advertising

**Topic 17. Oligopoly**

1. Markets with multiple sellers

2. The economy of cooperation

3. Public policy on oligopolies

**Topic 18. Market of factors of production**

1. Demand for labor

2. Labor supply

3. Balance in the labor market

4. Other factors of production: land and capital

**Topic 19. Income and Inequality**

1. Factors of equilibrium wages

2. The economy of inequality

**Topic 20. Income inequality and poverty**

1. Determination of inequality
2. The political philosophy of income sharing
3. Poverty reduction policies

**Topic 21. Consumer choice theory**

1. Budget constraint
2. Consumer wishes
3. Optimization of consumer choice

**Topic 22. Microeconomic constraints**

1. Asymmetry of information
2. Political economy
3. Behavioral Economics

**Topic 23. National income**

1. Revenues and expenditures in the economic system
2. Components of GDP
3. Real and nominal GDP
4. Is GDP a good measure of economic well-being

**Topic 24. Cost of living**

1. Consumer Price Index
2. Adjusting economic indicators for the inflation index

**Topic 25. Production and growth**

1. Economic growth in the world
2. The values and factors of productivity
3. Economic growth and public policy

**Topic 26. Savings, Investments and the Financial System**

1. Savings and investments in the national income account
2. Credit market

**Topic 27. Basic Financial Instruments**

1. Present value
2. Risk management
3. Valuation of assets

**Topic 28. Unemployment**

1. The essence of unemployment
2. Job search
3. The law of minimum wage
4. Trade unions
5. The theory of effective wages

**Topic 29. Monetary system**

1. The essence of money
2. Banks and money supply
3. Monetary policy instruments

**Topic 30. Money supply and inflation**

1. The classical theory of inflation
2. The price of inflation

**Topic 31. Fundamentals of Macroeconomics**

1. International movement of goods and capital
2. International transaction price: real and nominal exchange rates
3. Purchasing power parity

**Topic 32. Macroeconomics of an Open Economic System**

1. Money supply and demand in the international money market
2. Equilibrium in an open economy
3. What affects the economy

**Topic 33. Aggregate Demand and Aggregate Supply**

1. Economic fluctuations
2. Economic fluctuations in the short term
3. The aggregate demand curve
4. Curve of aggregate supply
5. Causes of economic fluctuations

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