

ECONOMICS 10233
Introductory Macroeconomics
Study Questions for Semester (Fall 2006)

INSTRUCTIONS: These questions are to help guide your studying. Although these exact questions may not appear on your exam, *the test will be based on the same material*. The page recommendations on the lecture questions are rough guesses. **The best guide to how long they need to be is to answer each as if you were explaining to a classmate.** In all cases the bracketed comments will not appear on the exam; parenthetical ones will.

COLOR CODING: Black questions are neutral (or more than one school of thought), green Orthodox, red Marxist, and blue Institutional. In addition, lecture and reading questions in all capitals will be on the final exam (even if we covered them for exam one or two).

LECTURE NOTES

Arguments...

1. DISTINGUISH BETWEEN VALIDITY AND COGENCY. [COUPLE OF SENTENCES]

Introducing the schools of thought...

Orthodoxy...

2. REGARDING THE NEOCLASSICAL SCHOOL OF ECONOMIC THOUGHT, LIST AND DESCRIBE IN A SENTENCE OR TWO THE THREE INPUTS INTO THAT PARADIGM'S INTELLECTUAL FOUNDATION. [LIST AND DESCRIBE IN A SENTENCE OR TWO]
3. What, according to orthodox economists, are the three instinctive drives? [three thingies–list and explain]
4. What is the orthodox goal? [sentence]
5. According to orthodoxy, how does a market-based economy enable us to achieve the orthodox goal given the constraint of our instinctive drives? [sentence or two]
6. In what sense are markets self regulating? How does this contrast with mercantilism? [couple of sentences]
7. WHAT IS THE ORTHODOX VIEW OF DEVELOPING COUNTRIES' PROBLEM AND THE BEST SOLUTION? [PARAGRAPH]

Institutionalism...

8. FROM WHAT INTELLECTUAL DEVELOPMENTS DID INSTITUTIONALISM EVOLVE? [PARAGRAPH]
9. What is cultural relativity? Give an example. [couple of sentences]
10. Describe the Institutional view of human behavior. [paragraph]
11. What is the Institutional "goal?" [sentence]
12. WHAT IS THE CEREMONIAL/INSTRUMENTAL DICHOTOMY AND HOW IS IT IMPORTANT IN THE INSTITUTIONALIST APPROACH TO THE ECONOMY ? [PARAGRAPH OR SO]
13. INSTITUTIONALISTS ARGUE THAT, IN TERMS OF RECOMMENDING POLICY, THE CHOICE OF MARKET VERSUS NON MARKET IS NOT NECESSARILY THE KEY ONE. WHAT DO THEY MEAN BY THIS? [COUPLE OF PARAGRAPHS]

14. WHAT IS THE INSTITUTIONALISTS VIEW OF DEVELOPING COUNTRIES' PROBLEM AND THE BEST SOLUTION? [PARAGRAPH]

Marxism...

15. FROM WHAT THREE SEPARATE STRANDS DID MARXISM EVOLVE? [PARAGRAPH]

16. IN WHAT SENSE DID MARX BELIEVE THAT CAPITALISM WAS EXPLOITATIVE? [PARAGRAPH]

17. What was Marx's goal? [sentence]

18. How did Karl Marx argue that capitalism was a necessary stage in the evolution of human history? [couple of sentences]

19. HOW DID MARX PREDICT THAT CAPITALISM WOULD SOW THE SEEDS OF ITS OWN DESTRUCTION? IN HIS VIEW, WAS THE SEQUENCE OF EVENTS LIKELY TO OCCUR? [PARAGRAPH]

20. WHAT IS THE MARXIST VIEW OF DEVELOPING COUNTRIES' PROBLEM AND THE BEST SOLUTION? [PARAGRAPH]

Macroeconomic issues...

21. Describe each variety of unemployment. Why is it that economists are concerned only with cyclical, involuntary unemployment (this question not specific to either Orthodox or Institutional)? [paragraph]

22. Describe the impact of relatively short periods of involuntary unemployment on the individual (this question not specific to either Orthodox or Institutional). [couple of sentences]

23. Describe the impact of chronic, involuntary unemployment on the individual and society (this question not specific to either Orthodox or Institutional). [couple of sentences]

24. One of John Maynard Keynes' great fears was that the chronic, involuntary unemployment in the United States and Britain would have the same effect that it did in Germany. What happened in Germany (and who actually voted for the Nazis)? [couple of sentences]

25. DRAW A LABOR MARKET DIAGRAM WITH INVOLUNTARY UNEMPLOYMENT. WHY IS IT THAT, GIVEN THE ORTHODOX ASSUMPTIONS, THE INVOLUNTARY UNEMPLOYMENT MUST DISAPPEAR? [PARAGRAPH; TELL WHAT THEY THINK WILL HAPPEN AND WHY IN TERMS OF THE TWO GROUPS INVOLVED]

26. DRAW A LABOR MARKET DIAGRAM WITH INVOLUNTARY UNEMPLOYMENT. WHY IS IT THAT, GIVEN KEYNES' ASSUMPTIONS, THERE EXISTS NO TENDENCY FOR THE INVOLUNTARY UNEMPLOYMENT TO DISAPPEAR (BE SURE TO REFERENCE YOUR GRAPH IN THE EXPLANATION)? [PARAGRAPH; TELL WHAT THEY THINK WILL HAPPEN AND WHY IN TERMS OF THE THREE GROUPS INVOLVED]

27. Keynes argued that the Orthodox economists had misunderstood the problem of unemployment, which was evident by the fact that they were focusing on the wrong variable as the culprit. What was the wrong variable? [sentence]

28. Instead of a rise in wages, Keynes thought that the event that created the involuntary unemployment on the labor market diagram was what? [sentence]
29. GIVE THE “SOCIAL” EXPLANATION OF THE BASIC MACROECONOMIC PROBLEM DESCRIBED BY KEYNES (WHEREIN CAPITALIST SOCIETIES’ VALUES AND THEIR INTERACTION ARE INVOLVED). [PARAGRAPH]
30. Keynes disagreed with the Orthodox economists that falling wages (which they expected to occur automatically) was a good policy to solve involuntary unemployment. What did he say about falling wages being potentially harmful to the economy? [paragraph]
31. EXPLAIN SAY’S LAW (BOTH PRO AND CON). [PARAGRAPH]
32. HOW WOULD SAY’S LAW PREVENT THE EVENT THAT KEYNES BELIEVES CAUSES INVOLUNTARY UNEMPLOYMENT ON THE LABOR MARKET DIAGRAM? [SENTENCE OR TWO]
33. Do a Harvey Test (see web page for description and data) to see if rising total GDP does, as Keynes suggests, lower unemployment (and vice versa). Know result for exam.
34. Do a Harvey Test to see if falling wages really cause unemployment to decline, and vice versa (as the Orthodox school argues). Know result for exam.
35. What are the two kinds of firms? Explain each in a sentence (Orthodox and Keynes). [couple of sentences]
36. Show the consumption function. [equation]
37. Tell how GDP or Y is income, output, and expenditure (Orthodox and Keynes). [couple of sentences]
38. DERIVE THE INCOME MULTIPLIER (ORTHODOX AND KEYNES). [WHATEVER]
39. Explain the income multiplier (Orthodox and Keynes). [paragraph]
40. Do a Harvey Test to see if GDP is determined by investment (assume a positive relationship). Know result for exam.
41. WHAT DETERMINES INVESTMENT? EXPLAIN AND BE SURE TO DEFINE YOUR PROFIT VARIABLE IN THE ANSWER (ORTHODOX AND KEYNES). [PARAGRAPH]
42. Do a Harvey Test to see if rising interest rates discourages investment, and vice versa. Know result for exam.
43. WHAT DETERMINES THE EXPECTED PROFIT RATE? EXPLAIN (ORTHODOX AND KEYNES). [PARAGRAPH]
44. HOW CAN A SELF-FULFILLING PROPHECY LEAD TO RECESSION AND UNEMPLOYMENT (INCLUDE THE SCHEMATIC AND A BRIEF EXPLANATION)? [COUPLE OF SENTENCES]
45. WHAT IS THE INVESTMENT-CAPITAL CYCLE, AND HOW CAN IT LEAD TO RECESSION AND UNEMPLOYMENT (INCLUDE THE DIAGRAM AND A BRIEF EXPLANATION)? [PARAGRAPH]

46. EXPLAIN THE MONEY MULTIPLIER (ORTHODOX AND KEYNES). [PARAGRAPH]
47. EXPLAIN THE MEANS BY WHICH THE FEDERAL RESERVE CAN AFFECT THE MONEY SUPPLY (GIVE A DEFINITION AND EXAMPLE; ORTHODOX AND KEYNES). [THREE TO SIX SENTENCES]
48. WHAT DETERMINES INTEREST RATES? [DIAGRAM PLUS COMMENT]
49. DRAW THE INSTITUTIONALIST MACROECONOMIC DIAGRAM.
50. DEFINE INFLATION. [SENTENCE OR TWO]
51. TO THE INSTITUTIONALISTS, INFLATION ALWAYS RESULTS IN A WHAT? [COUPLE OF WORDS]
52. EXPLAIN HOW COST-PUSH AND DEMAND-PULL INFLATION ARE CAUSED (EXCLUDING ACTS OF GOD; ORTHODOX AND INSTITUTIONALIST). [COUPLE OF SENTENCES]
53. TO WHOM IS INCOME REDISTRIBUTED IN EACH? [COUPLE OF SENTENCES]
54. HOW IS EACH STOPPED (ORTHODOX AND INSTITUTIONALIST)? [COUPLE OF SENTENCES]
55. HOW DOES THE ORTHODOX SCHOOL VIEW THE PHENOMENON OF INFLATION? [COUPLE OF SENTENCES]
56. HOW DOES THE INSTITUTIONALIST SCHOOL VIEW INFLATION? [COUPLE OF SENTENCES]
57. DO A HARVEY TEST TO SEE IF INFLATION RISES WHEN GDP GOES UP, AND VICE VERSA (THE ORTHODOX VIEW). KNOW RESULT FOR EXAM.
58. DO A HARVEY TEST TO SEE IF INFLATION RISES WHEN ENERGY PRICES INCREASE, AND VICE VERSA (THE INSTITUTIONALIST VIEW). KNOW RESULT FOR EXAM.
59. NOW SPLIT UP—SEE BELOW!
- 59a. WHAT ARE THE INSTITUTIONALIST POLICY RECOMMENDATIONS WITH RESPECT TO UNEMPLOYMENT? [SEVERAL PARAGRAPHS]
- 59b. WHAT ARE THE INSTITUTIONALIST POLICY RECOMMENDATIONS WITH RESPECT TO INFLATION AND INTEREST RATES? [SEVERAL PARAGRAPHS]
112. WHAT IS THE KEY ISSUE WITH RESPECT TO SOCIAL SECURITY?
113. WHAT IS THE LOGICAL WAY OF MEASURING DEBT BURDEN, WHERE DOES THE US STAND, AND WHEN DO WE NEED TO REPAY THE DEBT?
114. WHAT IS THE IMPACT OF REPAYING THE NATIONAL DEBT?
115. WHEN HAVE THE RECESSIONS SINCE 1973 TAKEN PLACE?

Heilbroner and Milberg Book: For each question, read through the chapter so you can get the full sense of what the authors are saying (in their terribly expensive book!) and then go back and answer the questions. In order to give you some sense of how much detail I am expecting I give in each case the number of words I used in writing my version of the answer.

EXAM ONE QUESTIONS

60. Chapter One: “Modern people are wealthy and helpless; ancient people were poor and (more or less) self sufficient.” Explain why this statement is true. [113 words]
61. Chapter One: What are the three means of solving the economic problem? [list all three and describe the first two in a sentence or two; 46 words]
62. Chapter Two: Describe the role of agriculture, cities, and slaves in ancient societies. [42 words]
63. Chapter Two: Julius Caesar and J.P. Morgan were both wealthy and powerful—what’s the difference in the source of their wealth and power? Was that unusual in their day? [35 words]
64. CHAPTER TWO: IN WHAT WAY WAS FEUDALISM WAS A REACTION TO THE FALL OF THE ROMAN EMPIRE? [42 WORDS]
65. Chapter Two: Explain the statement from the book, “...the social form taken by the accumulation of wealth (i.e., the “social surplus) reveals a great deal about any society.” [32 words]
66. Chapter Two: What were the three prerequisites of change to a market economy? [list and explain each in a sentence or two; 83 words]
67. CHAPTER THREE: WHY, PHILOSOPHICALLY, WAS THE CATHOLIC CHURCH AGAINST WEALTH MAKING (AND THEREFORE THOUGHT IT TO BE SINFUL)? HOW DID CALVINISM’S PERSPECTIVE ALLOW FOR AND EVEN ENCOURAGE WEALTH MAKING? [78 WORDS]
68. CHAPTER THREE: WHAT ROLE DID THE ENCLOSURES PLAY IN CREATING THE MARKET SYSTEM? BE SURE TO EXPLAIN WHAT THE ENCLOSURE MOVEMENT WAS IN YOUR ANSWER. [51 WORDS]
69. CHAPTER THREE: IF “IT IS NOT FROM THE BENEVOLENCE OF THE BUTCHER, THE BREWER OR THE BAKER THAT WE EXPECT OUR DINNER,” BUT FROM THEIR SELF LOVE, THEN WHY IS IT, ACCORDING TO ADAM SMITH, THAT THEY DO NOT SIMPLY TAKE ADVANTAGE OF US IN SELLING US THEIR WARES? EXPLAIN HOW THIS WOULD PREVENT THEM FROM HOLDING US FOR RANSOM. [36 WORDS]

EXAM TWO QUESTIONS

70. CHAPTER FOUR: WHAT THREE FACTORS DO HEILBRONER AND MILBERG CITE AS KEY IN HAVING ENGLAND BE THE SOURCE OF THE INDUSTRIAL REVOLUTION? [LIST AND EXPLAIN; 55 WORDS]
71. Chapter Four: How would the medieval hierarchy have inhibited the Rise of the New Men and the development of the Industrial Entrepreneur in England? [29 words]
72. Chapter Five: Explain the economies of large-scale production (in particular, the relationships among cost and output when it is possible to attain economies of scale). [22 words]

73. CHAPTER FIVE: HOW DID THE RISE OF BIG BUSINESS AFFECT COMPETITION (AND THEN PUBLIC POLICY) IN THE UNITED STATES? [45 WORDS]
74. Chapter Five: How did the Captains of Industry differ from the “New Men” of chapter four? [25 words]
75. CHAPTER SIX: HOW DID SPECULATION CONTRIBUTE TO THE GREAT DEPRESSION? [32 WORDS]
76. Chapter Six: What does it mean to say that demand is inelastic and how did the fact that the demand for farm products was inelastic hurt farmers? [41 words]
77. CHAPTER SIX: HEILBRONER AND MILBERG GENERALLY DESCRIBE TECHNOLOGY TO BE RISING UP TO THE GREAT DEPRESSION. HOW DID THIS NEVERTHELESS CONTRIBUTE TO THE COLLAPSE? [16 WORDS]
78. Chapter Six: How did the maldistribution of income contribute to the Great Depression? [25 words]
79. Chapter Six: How does income that is saved get returned to the income flow? What must be expected if that is to occur? [22 words]

FINAL EXAM QUESTIONS

80. CHAPTER SEVEN: DID THE NEW DEAL SOLVE THE GREAT DEPRESSION? IF THE ANSWER IS “YES,” HOW? IF THE ANSWER IS “NO,” WHY NOT, AND WHAT DID END THE DEPRESSION (AND HOW)? [39 WORDS]
81. CHAPTER SEVEN: HOW DID MONETARY POLICY CHANGE UNDER ROOSEVELT (AND WHAT HAD BEEN DONE UP TO THEN)? [33 WORDS]
82. CHAPTER SEVEN: IN WHAT SENSE DID WE EMERGE FROM THE GREAT DEPRESSION WITH A NEW STAGE OF CAPITALISM? [35 WORDS]
83. CHAPTER EIGHT: WHY WAS TRADE SO CRUCIAL TO EUROPE? WHAT INTERRUPTED IT? [55 WORDS]
84. CHAPTER EIGHT: WHAT IS CORPORATISM (BE SURE TO MENTION BOTH INSTITUTIONAL CHANGES AND THE DEFINITION OF CORPORATISM)? [61 WORDS]
85. CHAPTER TWELVE: WHAT THREE TECHNOLOGICAL FACTORS HAVE DRIVEN GLOBALIZATION? [36 WORDS]
86. CHAPTER TWELVE: WHAT DO HEILBRONER AND MILBERG MEAN BY “THE TAIL WAGGING THE DOG?” [48 WORDS]
87. CHAPTER TWELVE: HOW GLOBAL HAS GLOBALIZATION BEEN? [34 WORDS]

Clayton and Giesbrecht Book: Because these tend to be much more straightforward than the ones from Heilbroner and Milberg I don’t bother giving a number of words on each one (though I still give some guidance).

EXAM ONE QUESTIONS

88. HOW CAN ECONOMIC STATISTICS BE ABUSED (THERE ARE FOUR VARIETIES OF ABUSE)?

[FOUR SENTENCES]

89. What is GDP (the phrase after the hyphen)? [sentence]
90. WHAT DOES GDP OVERLOOK (THREE THINGS--THE FOURTH ONE REALLY ISN'T OVERLOOKED)? [THREE SENTENCES]
91. Specifically, when is the economy in recession (answer very carefully--NOT the bit about the NBER working it out)? [sentence]
92. Have a look at the figure showing durable and nondurable goods production. Which of the two appears to change more over recessions (the shaded areas) and expansions (the non-shaded areas)? Explain why this is logically so. [couple of sentences]
93. Why bother with the index of industrial production if it largely measures the same thing as GDP? [sentence]

EXAM TWO QUESTIONS

94. On average, how much warning does the index of leading indicators give us for a recession (in months)? [sentence]
95. What is the conventional wisdom regarding the signal given by the index of leading indicators? [sentence]
96. WHEN WERE THE THREE FALSE ALARMS IN THE INDEX OF LEADING INDICATORS AND HOW MIGHT EACH BE EXPLAINED? [COUPLE OF SENTENCES]
97. What are the "other" problems with the index of leading indicators? [sentence or so]
98. How often is the index of leading indicators released and up to how many months of revisions are included? [sentence]
99. For what is capacity utilization designed? [sentence]
100. Briefly explain why gross private domestic investment expenditures are so important, despite the small role they play in overall spending in the economy. [Hint: find the stuff about Keynes; **two points**--sentence or two]
101. In general, building permits and housing starts are excellent leading economic indicators, the only problem being one of interpretation. Explain. [sentence]
102. WHAT DOES IT TAKE TO BE EMPLOYED (GIVE THE DEFINITION, NOT THE EXAMPLE)? [SENTENCE]

FINAL EXAM QUESTIONS

103. WITH RESPECT TO RECESSIONS, WHEN DOES UNEMPLOYMENT START TO RISE AND WHEN DOES IT START TO FALL? WHICH MOVEMENT DOES IT MAKE QUICKLY AND WHICH SLOWLY? [SENTENCE OR TWO]
104. A DECLINE IN CORPORATE PROFITS ALMOST ALWAYS SIGNALS (ALBEIT WELL IN ADVANCE) WHAT EVENT IN THE MACROECONOMY? [SENTENCE]

105. IF RETAIL SALES ARE RECOVERING, WHAT IS PROBABLY ABOUT TO HAPPEN? [SENTENCE]
106. GENERALLY SPEAKING, HOW DOES THE BUREAU OF LABOR STATISTICS CALCULATE THE CONSUMER PRICE INDEX (HINT: SEE FIRST TWO PARAGRAPHS UNDER “CONSTRUCTING THE SAMPLE” AND SUMMARIZE—YOU DON’T NEED TO KNOW SPECIFIC DATES OR NUMBERS)? [COUPLE OF SENTENCES]
107. HOW DOES M2 SERVE AS AN INDICATOR (OF **BOTH** ECONOMIC ACTIVITY AND PRICES)? [SENTENCE OR TWO]
108. WHAT ARE FEDERAL FUNDS? [SENTENCE—DON’T JUST SAY IT’S THE INTEREST PAID TO BORROW FED FUNDS!]
109. WHAT IS THE DISCOUNT RATE? [SENTENCE]
110. HISTORICALLY, WHAT IS THE PRIME INTEREST RATE? [SENTENCE]
111. THE S&P 500 WORKS SO WELL AS A LEADING INDICATOR OF ECONOMIC ACTIVITY THAT IT IS INCLUDED IN WHAT PRESTIGIOUS LIST? [SENTENCE]