

Class Activities for Friday, April 28, 2017

I would like to direct your attention to developing a more refined and nuanced understanding of the policy implications of the material we have encountered during the semester.

To produce this outcome I ask you to consider each of the following Discussion Questions from Chapters 10, 13, 17 and 20 and be prepared to respond and discuss them during class on Friday, April 28, 2017. It is more likely you will be able to make more constructive and insightful contributions to the class discussion to make this participation more useful by preparing in advance a brief set of 'talking' points for each of the discussions questions. If you give me a copy of those 'talking points' at the conclusion of class on April 28 that will increase your activities grade whether or not you participated in the verbal discussions.

The Discussion Questions: I have added a few clarifications and extensions of the topics in the brackets [].

Chapter 10 2: *Comment on the following statement: "Inflationary and recessionary gaps are nothing to worry about because the economy has a built-in mechanism that cures either type of gap automatically." [What are the implications for households and firms if the gaps are or are not 'cured' automatically?]*

Chapter 13 7: *From 2003 to 2011 the federal government's budget deficit rose sharply because of tax cuts and increased [government] spending. If the Federal Reserve wanted to maintain the same level of aggregate demand [as in 2003] in the face of large increases in the budget deficit, what should it have done? What would you expect to happen to interest rates [the value of the US dollar and inflation]?*

Chapter 17 8: *The year 2014 closed with unemployment rate just below 6 percent, real GDP growing at roughly 2.5 percent, inflation below 2 percent, and the federal budget showing a deficit under 3 percent of GDP.*

- a. *Give one or more arguments for engaging in expansionary monetary or fiscal policies under these circumstances.*
- b. *Give one or more arguments for engaging in contractionary monetary or fiscal policy under these circumstances.*
- c. *Which arguments do you find more persuasive [based on economic criteria; based on political criteria]?*

Chapter 20 4: *Explain why American fiscal policy is less powerful and American monetary policy is more powerful than indicated in the closed-economy model described earlier in this book. [How important a consideration should the degree of openness be in formulating fiscal and monetary policy?]*