

## **Review Sheet for National Income and Price Determination Unit Test – Chapters 10, 11, 12 in Economics Today**

### **Ch. 10:**

Define aggregate demand

Define aggregate supply

Define :

- Real balance effect
- Interest rate effect
- Open economy effect

What impact will price level changes have on the aggregate demand?

What are the non-price determinants that will effect the aggregate demand curve?

What is the LRAS in the classical model? Why is it vertical?

What is the SRAS in the classical model? Why is upward sloping?

What factors can shift the aggregate supply curves?

Graph the three main curves and show the equilibrium point.

What are demand shocks? How do they effect the AG real GDP and price level?

What are supply shocks? How do they effect the AG real GDP and price level?

What is the contractionary gap?

What is the expansionary gap?

Identify cost push inflation.

Identify demand pull inflation.

### **Ch. 11**

Who were the classical economists?

What is Say's Law?

What assumptions about prices and wages in the classical model lead to long run-equilibrium?

How do classical economists explain the solution to the problem created by savings?

Why do classical economists feel that long term unemployment is impossible?

What impact do the classical economists think that increases in AD will have on the economy?

Why do they oppose Government intervention in the economy?

What time period did Keynes writing his theory?

What problem is he trying to solve?

What critique does Keynes have of Say's law?

Why does Keynes think prices are "sticky"?

What role do savings play in Keynes theory?

What is the shape of the Keynesian short run supply curve? How is this different than the

classical economists?

What impact with Keynesian increases in AD has on real GDP?

How does strong and weak dollars in an open economy effect the macro model?  
Be able to draw a classical and Keynesian macro models side by side and compare the impact of various changes in AD and AS curves?

**Ch. 12:**

According to the Keynesian model what are the two things people can do with income?  
What is autonomous consumption?  
What is the consumption function?  
Define the APS and APC.  
Define the MPS and the MPC  
What are the factors that influence Investment?  
What are savings, and dissavings?  
How is real disposable income different than national income?  
What determines government spending in the Keynesian model?  
Why is the foreign sector autonomous in the Keynesian model?  
What is the multiplier significance is the significance of the multiplier?  
What do Keynesians believe created the Great Depression?  
How do shifting price levels change the effect of the multiplier?

**Can you graph?**

Classical SRAS  
Keynesian SRAS  
AD  
LRAS  
Equilibrium real GDP and price levels in different models  
The effects of various supply and demand shocks  
The expansionary gap  
The contractionary gap?  
The consumption function, including autonomous consumption and the equilibrium of national income  
The differences between the Keynesian and Classical models