NAME: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ PERIOD: \_\_\_\_\_\_\_\_ DATE: \_\_\_\_\_\_\_ POINTS: \_\_\_\_\_\_\_\_\_

**STUDY GUIDE CHAPTER 15 & 16**

**DIRECTIONS**: Read each main idea and complete the statements or answer the questions below. Refer to your textbook as you write the answers.

***CHAPTER 15 LESSON 2***

**A. Goals of Supply-Side Policies**

**Main Idea:** Supply-side policies are an alternative to demand-side policies. They target producers, who are also suppliers, to stimulate their output, and therefore provide jobs.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_-side policies target producers to stimulate their output and provide jobs. They became popular

under \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

2. Supply-siders argue that the economic role of the federal government should be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ because it

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_production and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ growth. They believe that \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ tax rates would allow individuals to keep more money, encourage them to work harder, and in the long run, increase demand.

3. Supply-siders also seek to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ industries by relaxing or removing government regulations.

**B. Impact and Limitations of Supply-Side Policies**

**Main Idea:** Supply-siders believe that their policies have never been fully tested because deregulation was offset by increased federal spending and a smaller government has never materialized. In addition, lowered tax rates have not increased tax revenue.

4. Supply-siders predicted that \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ tax rates and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ government regulation would create strong economic growth; however, the economic growth during Reagan’s first two terms could have been helped by extensive military spending.

5. The idea that lower tax rates would lead to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ revenue has been proven \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

6. Almost everyone, including demand-siders, favor policies that make production \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, but economists believe that supply-side policies during the Reagan and Bush presidencies made the

economy \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ stable.

7. Both demand-side and supply-side policies want to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ production and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 unemployment without causing \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

***CHAPTER 15 LESSON 3***

1. How is aggregate supply related to macroeconomics?

2. What causes aggregate supply to rise and fall?

**II. Aggregate Demand**

3. Why is aggregate demand a concept and not a concrete number?

4. How is aggregate demand usually represented?

5. What factors can increase or decrease aggregate demand?

**III. Macroeconomic Equilibrium**

6. Which two major problems in macroeconomics do aggregate supply and aggregate demand help us understand?

7. Explain the positive and negative side to bringing the economy closer to macroeconomic equilibrium through demand-side policies.

8. What is the best case scenario on a macroeconomic level of supply-side policies?

9. What is the best way to try and achieve a stable macroeconomic equilibrium?

***LESSON 16-1 CHAPTER 16 LESSON 1***

**A. Structure of the Fed**

**Main Idea:** The Fed is owned by its member banks and is run by a Board of Governors. Various committees evaluate the U.S. economy and decide if the Fed needs to take action to improve the economy.

1. The Fed is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ owned by member \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that are part of the Federal Reserve System.

2. The Board of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ consists of seven members who are appointed by the president and approved by the

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

3. There are twelve \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ banks in the Fed system that are located in different \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of the country.

4. The Federal Open Market Committee makes key decision regarding \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ policy through its ability to

 raise or lower \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

5. The most important Fed committee is the Federal \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Council, which meets several times a year to

 provide advice to the Federal Reserve Board on matters concerning the overall \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of the economy.

**B. Responsibilities of the Fed**

**Main Idea**: The Fed maintains the currency, clears all checks, regulates banks, and engages in some consumer protection activities.

6. All U.S. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, including paper money and coins, is really Federal Reserve \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that are created for public circulation.

7. The Fed oversees the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ system, which involves clearing checks and the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ transfer of money

8. The Fed establishes \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for the running of banks and monitors bank \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

9. The Fed provides protection to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, including information and help regarding identity theft,

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ratings, and foreclosures.

10. The Fed handles the buying and selling of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ securities issued by the U.S. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Department to help fund the government.

***CHAPTER 16 LESSON 2***

**A. Fractional Reserves and Deposit Expansion**

**Main Idea:** Banks must keep a portion of their deposits on reserve, either in their vaults or at the Fed.

1. Under a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ reserve system, banks must keep a proportion of their \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in their vault or at a Federal Reserve bank.

2. The reserve \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the percentage of every deposit that must be set aside as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 Reserves.

3. A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ bank reserve is the reserve kept by member banks as the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to satisfy reserve requirements.

4. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ reserves are the amount of cash, currency, and reserves a bank has that are not needed for

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ requirements.

**B. Conducting Monetary Policy**

**Main Idea:** Monetary policies change the amount of money in circulation, or the money supply. Monetary policy is enacted through changes in different types of interest rates that either increase or decrease the money supply.

5. An \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ rate is the price of credit to a borrower.

6. An \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ money policy lowers interest rates, which usually leads an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ money supply.

7. A tight money policy involves \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ interest rates to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ access to credit, and is usually associated with a contraction in the money supply.

8. If banks’ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ requirement is low, the banks have \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ money to lend, and this boosts economic activity.

9. If the reserve requirement is raised, banks have less money to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and the economy tends to

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

10. The monetary policy that takes the form of the purchase and sale of government securities is called open

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and is one of the Fed’s most \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ tools.

11. When the Fed buys securities, it \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the economy by increasing banks’ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ reserves.

12. When the Fed sells these securities to banks, the banks have less money to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and the economy

 tends to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

13. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ rate is the interest the Fed charges to banks that \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ money from it.

14. A high discount rate makes it more \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for banks to borrow, thus \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ their excess reserves.

Answer Key 15-2

1. Supply; Ronald Reagan

2. reduced; dampens/decreases; slows; lower

3. deregulate

4. lower; reduced

5. increased spending on defense and other categories.

6. increased/higher; false

7. increase; decrease; inflation

Answer Key 15-3

1. Macroeconomics focuses on the economy as a whole, and aggregate supply represents supply for the whole economy, or in other words the total value of all goods and services that all firms would produce in a specific period of time and at various price levels.

2. The cost of production; if production costs decrease, aggregate supply increases and production costs increase, aggregate supply decreases.

3. Because it’s impossible to measure everyone’s demand for every good and service in the economy.

4. On a graph, with a curve sloping downward to the right, representing different levels of real GDP that would be purchased at different price levels.

5. When consumers decide to spend more and save less, it increased aggregate demand; when consumers spend less and save more, it decreases aggregate demand. Higher taxes and lower transfer payments can also decrease aggregate demand.

6. Inflation and recessions.

7. Stimulating spending can increase GDP and thus move aggregate demand to the right, bringing the economy closer to economic equilibrium, but that equilibrium would land at a higher level of GDP and prices, causing inflation

8. That more output is produced at every price level, there’s no drop in aggregate demand, and prices come down.

9. Through using both demand-side and supply-side policies.

Answer Key 16-1

1. privately; banks

2. Governors; Senate

3. district; regions

4. monetary; interest rates

5. Advisory; health

6. currency; notes

7. payment; electronic

8. guidelines; operations/behavior

9. consumers; credit

10. securities; Treasury

Answer Key 16-2

1. fractional; deposits

2. requirement; legal

3. member; Fed

4. excess; reserve

5. interest

6. easy; expanded

7. raising; restrict

8. reserve; more/excess

9. lend; shrink

10. market operations; popular

11. expands; excess

12. lend; contract

13. discount; borrow

14. expensive; reducing

15. lowers; loans

16. prime; interest