

## Short Answer Questions

### Chapter 33.

1. Explain why Keynes believed a focus on the long run was 'misleading' in relation to
2. What did Keynes believe was a fundamental cause of unemployment? Explain how unemployment rates could remain above market equilibrium as a result.
3. Using an example, distinguish between planned spending, saving and investment and actual spending, saving and investment.
4. In Keynesian analysis, what are the causes of a deflationary gap and what policy measures would Keynes have advocated to reduce this gap? You should use a diagram to help illustrate your answer.
5. Assume the economy is in equilibrium at a point greater than full employment output. What would be the economic consequences of such an equilibrium and what would government need to do to autonomous spending in order to reduce these effects. Use an appropriate diagram to illustrate your answer.
6. Using an example, explain the importance of the accelerator principle in analysing the performance of the economy.
7. It is argued that the effect of any increase in government spending is dependent on the marginal propensity to consume (MPC) and that the size of the MPC is also dependent on whether the population that is affected by any changes in fiscal policy are relatively poor or well off. Explain why the MPC might be different depending on the level of income of the households under consideration and what effect this would have on any change in autonomous expenditure.
8. Explain the derivation of the IS and LM curves. Use a diagram to illustrate your answer.
9. Explain what is meant by the concept of 'general equilibrium' and why it is important for students to have a good understanding of this concept.
10. Using the IS-LM model, explain the effect on interest rates and national income of:
  - a. A contraction of fiscal policy similar to that being adopted by a number of European governments
  - b. An expansion of the money supply similar to that generated by quantitative easing.