Short Answer Questions
Chapter 35.

1. Outline the theory of liquidity preference in adjusting the interest rate and the quantity of money demanded and supplied.

2. Explain the effect of an increase in the price level on equilibrium in the money market.

3. Consider the effect on aggregate demand of a contraction in the money supply.

4. Outline the process involved if a central bank wants to increase the interest rate.

5. Why do central banks monitor the behaviour of stock markets?

6. Explain the principle of 'crowding out'. You should use a diagram to help illustrate your answer.

7. What is a 'fiscal stimulus' and why do economists think it is important what a fiscal stimulus is used for in measuring its success?

8. Present a case for active stabilisation of an economy which is experiencing persistently high unemployment and low economic growth.

9. Why do some economists argue that active stabilisation policies have only limited effects on the economy and as such should be avoided in preference to other policies?

10. Explain how automatic stabilisers might be expected to smooth out fluctuations in economic activity.

Economics, 2nd edition
N. Gregory Mankiw and Mark P. Taylor
ISBN 978-1-84480-870-0