IB Economics Monetary Policy and HL Extensions and calculations Unit 9.5

Concept and Terminology

SL and HL Fiscal Policy	**SL and HL Monetary Policy**
Recessionary gap/deflationary gap Inflationary gap Government Expenditure • Capital expenditures • Current expenditures • Transfer payments Crowding Out Natural Rate of unemployment	Expansionary monetary policy Easy policy Contractionary monetary policy Tight policy Demand for Money Transition Mechanism Commercial banks Central Bank

HL - Measuring Inflation	**HL – Keynesian**	**HL - Taxes**
Weighted Price Index Consumer Price Index – CPI Producer Price Index - PPI Price Deflator and Real GDP CPI as a deflator Base period Inflation rate Target	Philips Curve – Long run and Short run Stagflation and the Phillips curve LRAS – Keynesian vs. Neo Classical approach Actual Output Potential Output The multiplier The multiplier effect Autonomous spending Induced spending Deep Recession NAIRU	Marginal tax rate Average tax rate Total Tax Direct tax Indirect tax Regressive tax Progressive tax Proportional tax Allocative efficiency

Objectives:

1. Describe methods of government expenditure and stabilization policy as part of fiscal policy
2. Explain how an inflation rate target is used to design monetary policy by a central bank.
3. Explain how a government can use ***monetary policy*** to stabilize the economy.
4. Evaluate the effectiveness of using Monetary policy to stabilize the economy.

HL

5. Explain how the economy can get "stuck" in a recessionary gap
6. Define and calculate the multiplier and explain the multiplier effect.
7. Identify the relationship between the multiplier and the impact on the business cycle.
8. Explain with reference to the concepts of leakages and injections, the nature and importance of the multiplier.
9. Draw a Keynesian AD/AS diagram to show the impact of the multiplier.
10. Examine the different views of the shape of the aggregate supply curve.

11. Describe the possible tradeoff between the unemployment rate and the inflation rate in the short run as shown in the SR Phillips curve.
12. Explain the shape of the LR Phillips curve and theory of how it is constructed.
13. Analyze the ways that the NAIRU can change.
14. Calculate marginal and average tax rates.
15. Explain the method and limitations of using price indexes to measure inflation.
16. Calculate a weighted price index –

IA Assessment Process – Commentary #2 Macroeconomics

Turnitin.com class same as last year – see me if you changed sections.

	Use school data base to search for and select article and get article approved
	Make planning guide for Commentary
	Receive feedback on Planning guide from teacher
	First draft of commentary and article due to Turnitin.
	Receive comments on First draft and revise
	Submit final copy due to Turnitin with changes high lighted.

Assignments

Block B Sunday 8/25 Block E/G Monday 8/26	HW 9.5-1 Monetary policy p. 330-337 Explain 2 distinctions between fiscal and monetary policy. (max. 1 paragraph) p. 335 # 1e and f p. 338 # 2
Block B Tuesday 8/27 Block E/G Wed 8/28	Macro article due in class for approval – article must be shown to me in person. I will not accept emailed articles. (in class Podcast)
Block B Tuesday 9/3 Block E/G Wed 9/4	HW 9.5-2 The Multiplier p. 260-263 Answer p. 264 Test your understanding # 1b an c, 2, and 9
Block B Thursday 9/5 Block E/G Sun 8	Planning guide for Commentary due in class for meeting
Block B Wed 9/11 Block E/G Thurs 9/13	First draft of commentary and article due to Turnitin
Block B Sunday 9/15 Block E/G Mon 9/16	HW 9.5-3 Phillips Curve and ideology debate in box – link to TOK p. 287-291 Answer p. 291# 2 and 4 and the last question under thinking points – that starts with "why do many economists…". (3 questions in total)
Block B Thursday 9/19 Block E/G Sun 9/20	HW 9.5-4 Tax Calculations and Allocative efficiency in Society read p. 316-318 Answer p. 317 #3 **and** Answer p. 319 #2 – Hard question!
Block B 9/23 Block E/G 9/24	**Test**

Calculate – *definition* – Obtain a numerical answer showing the relevant stages in the working.

The Multiplier
The Real GDP using a price deflator
The Inflation rate
Unemployment rate
Economic growth
Marginal tax rate
Average tax rate

The Multiplier

$$\frac{1}{1 - MPC} \quad \text{or} \quad \frac{1}{MPS+MPT+MPM} \qquad \frac{1}{MPW \text{ (leakages)}}$$

MPC = Marginal Propensity to Consume
MPW = Marginal Propensity to Withdraw
MPS+MPT+MPM = the sum of Marginal Propensity to withdraw
MPS = Marginal propensity to save
MPT= Marginal rate of tax
MPM = Marginal propensity to import

The Real GDP using a price deflator

$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price deflator}}$$

The Inflation rate

$$\frac{\text{The change in the price index}}{\text{The index for the previous year}} \times 100$$

Unemployment rate

$$\frac{\text{Number of unemployed}}{\text{Number in the labor force}} \times 100$$

Economic growth

$$\frac{\text{Change in real GDP}}{\text{Initial Real GDP}} \qquad \frac{\Delta GDP}{\text{Initial}}$$

Marginal tax rate

$$\frac{\text{Change in taxes}}{\text{Change in income}} \qquad \frac{\Delta T}{\Delta Y}$$

Average tax rate

$$\frac{\text{Tax paid}}{\text{Income (or tax base)}}$$

Total Tax = Indirect tax + Direct tax