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Antietam High School
Student Teaching Unit Plan
March 18-May 15, 2009

Economics Today and Tomorrow

Unit 5

Macroeconomics: The Nation's Economy

1) Correlation to the Pennsylvania Academic Standards

   a) Civics and Government
      i) 5.1.12 B, C, G.H
      ii) 5.2.12 A, C, D, E, F, G
      iii) 5.4.12 A

   b) Economics
      i) 6.1.12 C, D
      ii) 6.2.12 A, C, D, E, G, H, I, J
      iii) 6.3.12 A
      iv) 6.5.12 F, G, H

   c) History
      i) 8.3.12 A, B, C, D

2) Goals

   a) All students will be able to understand the how the national economy's performance is measured and why it is important to measure it.

   b) All students will be able to understand the role of money in the national economy and how banks work to keep money in circulation.

   c) Students will be able to understand what the functions of the Federal Reserve System are, how it is organized and how it affects the national economy through monetary policy.

   d) Students will understand why the government collects taxes and on what it spends money on.

   e) Students will understand the factors that destabilize the economy and what actions the government can take to adjust it

3) Objectives: TSWBAT (the student will be able to)

   a) Chapter 13: Measuring the Economy's Performance

      i) Section 1. National Income Accounting

(1) Define national income accounting, GDP, net exports, NDP, NI, PI, transfer payments and DI

   (a) National income accounting is the measurement of the national economy's performance.

   (b) GDP stands for Gross Domestic product. It is the total value of all final goods and services produced in the nation during a single year.

   (c) Net exports (X) is the difference between what the nation exports and imports

   (d) NDP is Net National Product. This is GDP minus the loss in value of capital goods caused by depreciation

   (e) National Income (NI) is the total amount of income earned by everybody in the economy

   (f) Personal Income (PI) is the total income that individuals receive before taxes are paid.

   (g) Transfer payments are welfare and other payments that a state or federal government makes to individuals.

   (h) DI is disposable personal income PI-Taxes=DI

(2) Name the four categories of GDP

   (a) Consumer sector, investment sector, government sector and net exports. Pie chart

(3) Relate the per capita GDP of the U.S. to other countries.

   (a) Luxembourg, Japan and Norway have higher per capita GDP's. The U.S. is $35,619

(4) Calculate from GDP to PI

(a) GDP-Depreciation=NDP-indirect bus taxes=NI-corporate taxes, Reinvested profits, employer social security contributions+Government and business transfer payments=PI-Personal taxes=DI

ii) b. Section 2. Correcting Statistics for Inflation

(1) Define inflation, purchasing power, deflation, consumer price index, market basket, base year, producer price index, GDP price deflator, and real GDP.

(a) Inflation is the prolonged rise in the price level of goods and services.

(b) Purchasing power is the real good and services that money can buy; determines the value of money.

(c) Deflation is the prolonged decline in the general price level of goods and services.

(d) Consumer price index (CPI) measure in the change of price over time of a specific group of goods and services used by the average household.

(e) Market basket is a representative group of goods and services used to compute the CPI,

(f) Base year is a year used as a point of comparison for other years in a series of statistics.

(g) Producer price index (PPI) is a measure of the change in price over time that U.S. producers charge for their goods and services.

(h) GDP price deflator is the price index that removes the effect of inflation from the GDP so that the overall economy in one year can be compared to another year.

(i) Real GDP is GDP that has been adjusted for inflation.

(2) Define the relationship between the purchasing power of money and inflation.

(a) In inflation the purchasing power of the dollar goes down in other words a dollar can not buy the same amount as it did before inflation.

(3) Define the relevance between the CPI and The PPI.

(a) Most of the producer prices included in the PPI is in mining, manufacturing, and agriculture. PPIs usually increase before the CPI. PPIs are often watched as a hint that inflation will take place.

iii) Section 3. Aggregate Demand and Supply

(1) Define aggregates, aggregate demand, aggregate demand curve, aggregate supply and aggregate supply curve.

(a) An aggregate is the summation of all the individual parts in the economy. Aggregate demand is the total quantity of goods and services in the entire economy that all citizens will demand at any single time.

(b) Aggregate demand curve is graphed line showing the relationship between the aggregate quantity demanded and the average of all prices as measured by the implicit GDP price deflator.

(c) Aggregate supply is the real domestic output of producers based on the rise and fall of the price level.

(d) Aggregate supply curve is a graphed line showing the relationship between the aggregate quantity supplied and the average of all prices as measured by the implicit GDP price deflator.

(2) Name the causes that make the aggregate demand curve slope downward.

(a) Aggregate demand is related to the price level-the average of all prices measured by a price index. Inflation causes the purchasing power of your cash to go down. Deflation makes our goods relatively better deals for exports.

(3) Name the causes that make the aggregate supply curve slope upward.

(a) As the price level increases producers want to supply more to the marketplace. When the price level falls the reverse is true.

(4) Draw a graph of the equilibrium price level via aggregate demand and supply analysis.

iv) Section 4. Business Fluctuations page 360

(1) Define business fluctuations, business cycle, peak or boom, contraction, recession, depression, trough, expansion and recovery.

(a) Business fluctuations refer to the ups and downs of the economy.

(b) Business cycle is the irregular changes in the level of total output measured by real GDP.

(c) Peek/boom the period of prosperity in a business cycle in which economic activity is at its highest point.

(d) Contraction is the part of the business cycle during which economic activity is slowing down,

(e) Recession is the part of the business cycle in which the nation's output (real GDP) does not grow for at least six months.

(f) Depression is a major slowdown of economic activity.

(g) Trough is the lowest part of the business cycle in which the downward spiral of the economy levels off.

(h) Expansion/recovery is the part of the business cycle in which economic activity slowly increases.

(2) Detail the phases of a business cycle and relate the current status of the U.S, economy to one.

(a) Peak or boom, contraction, recession or depression, trough, expansion or recovery.

(3) Create a timeline of the most severe downturns in the U.S. economy since the 1920's.

(a) Page 362

v) Section 5. Causes and Indicators of Business Fluctuations

(1) Define innovations, economic indicators, leading indications, coincident indicators, and lagging indicators.

(a) Innovations are inventions and new production techniques. (Printing press).

(b) Economic indicators are statistics that measure variable in the economy.

(c) Leading indicators are statistics that point to what will happen in the economy.

(d) Coincident indicators are economic indicators that usually change at the same time as the change in overall business activity.

(e) Lagging indicators are indicators that seem to lag behind changes in overall business activity.

(2) Name the several key economic indicators, coincident indicators, and lagging indicators.

(a) Page 366 chart.

(3) Create a graphic organizer to detail the cause of business fluctuations.

(a) Business investment can expand or contract because of innovations or production cutbacks

(b) The government affects business activity through its policies on taxing and spending and through its control over the money supply.

(c) External factors such as wars and the availability of raw materials

(d) Psychological factors such as the terrorist attacks on 911 cause consumers and businesses to pull back.

(4) Explain how innovation affects business fluctuations.

(a) Innovations create new products and production techniques causing others to imitate the process in order to become competitive.

(5) Detail events that lead to the current contraction in the economy and determine where the economy is in the current cycle.

b) Chapter 14: Money and Banking

i) Section 1. The Functions and Characteristics of Money

(1) Define money, medium of exchange, barter, unit of accounting, store of value, commodity money, representative money, fiat money, legal tender

(a) Money is anything customarily used as a medium of exchange, a unit of accounting and a store of value.

(b) Medium of exchange is the use of money in exchange for goods and services.

(c) Barter is the exchange of goods and services for other goods and services.

(d) Unit of accounting is the use of money as a yardstick for comparing the value of goods and services in relation to one another.

(e) Store of value refers to the use of money to store purchasing power for later use.

(f) Commodity money is a medium of exchange such as cattle or gems that has value as a commodity or good aside from its value as money.

(g) Representative money is money that is backed by an item of value such as gold and silver.

(h) Fiat money is money that has value because a government fiat or order, has established it as acceptable for payment of debts.

(i) Legal tender is money that by law must be accepted for payment of public and private debts.

(2) Define the three functions of money

(a) Medium of exchange, unit of accounting and a store of value.

(3) Describe the six major characteristics of money.

(a) Money must be durable, portable, divisible, stable in value, scarce and accepted. See chart on page 378 Create graphic diagram.

ii) Section 2. History of American money and Banking.

(1) Define: overdraft checking, electronic funds transfer (EFT), automated tell machine (ATM).

(a) Overdraft checking is a checking account that allows a customer to write a check for more money than exists in his or her account.

(b) Electronic funds transfer (EFT) is a system of putting onto computers all the banking functions that in the past were handled on paper.

(c) Automated teller machines (ATM) are a unit that allows consumers to do their banking without the help of a teller.

(2) Describe the 5 most important events in the history of American money and banking.

(a) See time line on pages 382 and 383

(3) Describe the six services provided by banks and savings institutions.

(a) Checking accounts, interest on certain types of checking accounts, automatic deposit and payment, storage of valuables, transfer of money from one person to another and overdraft checking.

(4) Describe how electronic banking has changed banking services.

(a) You can do most of your banking from home if you have a computer. You can transfer funds, pay bills and even apply for a loan-all via the internet.

iii) Section 3. Types of Money in the United States

(1) Define checking account, checkable deposits, thrift institutions, debit card, near moneys, M1 and M2

(a) A checking account is an account in which deposited money can be with drawn at any time by writing a check.

(b) Checkable deposits are money deposited in a bank that can be withdrawn at any time by presenting a check.

(c) Thrift institutions are mutual savings banks, S&Ls, and credit unions that offer many of the same services as banks.

(d) A debit card is a devise that is used to make cashless purchase: money is electronically withdrawn from the consumer's checkable account and transferred directly to the store's bank account.

(e) Near moneys are assts such as savings accounts, that can be turned into money relatively easily and without the risk of loss of value.

(f) M1 is the narrowest definition of the money supply. It consists of moneys that can be spent immediately and against which checks can be written.

(g) M2 is a broader definition of the money supply. It includes all of M1 plus such near moneys as money market mutual funds balance certificates of deposit and Eurodollars.

(2) Define the difference between money and near money

(a) Near moneys are almost but not exactly like money. Their values are stated in terms of money and they have high liquidity. They can be turned into money very easily without risk of loss.

(3) Define the difference between M1 and M2

(a) M1 includes all currency, checkable deposits and travelers' checks. M2 includes all of M1 plus savings deposits, certificates of deposit, money market deposits, money market mutual fund balances and Eurodollars.

(i) A money market fund is a type of <u>mutual fund</u> that is required to invest in low-risk securities. These funds have relatively low risks compared to other mutual funds and pay dividends that generally reflect <u>short-term interest rates</u>.

(ii) Money market funds typically invest in <u>government securities</u>, <u>certificates of deposit</u>, <u>commercial paper</u> of companies, or other highly liquid and low-risk securities

c) Chapter 15: The Federal Reserve System and Monetary Policy

i) Section 1. Organization and Functions of the Federal Reserve System

(1) Define Fed, monetary policy, Federal Open Market committee, check clearing

(a) The Federal Reserve System was created in 1913 as the nation's central banking organization.

(b) Monetary policy is the policy that involves changing the rate of growth of the supply of money in circulation in order to affect the cost and availability of credit.

(c) The federal open market committee is a 12 –member committee that meets 8 times a year to decide the course of action that the fed should take to control the money supply

(d) Check clearing is the method by which a check that has been deposited in one institution is transferred to the issuer's depository institution.

(2) Graph how the Fed is organized.

(a) Page 400

(3) List the key functions of the Fed

(a) Page 404: check clearing, acting as the government's fiscal agent, supervising member state banks, holding reserves, supplying paper currency, and regulating the money supply. Regulating the money supply is the most important.

ii) Section 2. Money Supply and the Economy

(1) Define loose money policy, tight money policy fractional reserve banking, reserve requirements

(a) Loose money policy is monetary policy that makes credit inexpensive and abundant, possibly leading to inflation.

(b) Tight money policy is the monetary policy that makes credit expensive and in short supply in an effort to slow the economy.

(c) Fractional reserve banking is the system in which only a fraction of the deposits in a bank is kept on hand or in a reserve; the remaining is available to lend.

(d) Reserve requirements are the regulations set up by the fed requiring banks to keep a certain percentage of their deposits as cash in their own vaults or as deposits in their Federal Reserve District bank.

(2) Describe the effect of loose money and tight money policies on the following: borrowing, consumer spending, business, employment, production.

(a) A loose money policy is implemented to encourage economic growth. Tight money policies are used to control inflation. See page 408

(3) Describe the purpose of fractional reserve banking.

(a) Banks must hold these reserves incase one or more customers decide to withdraw large amounts of cash from their checking accounts. Currently banks must keep 10% of their checkable deposits with the Fed.

(4) Describe how the money supply expands and contracts

(a) Because banks are not required to keep 100% of their reserves they can use the excess reserves to create new money.

iii) Section 3. Regulating the Money Supply

(1) Define discount rate, prime rate, federal funds rate, open-market operations.

(a) The discount rate is the interest rate the Fed charges on loans to member banks.

(b) Prime rate is the rate of interest that banks charge on loans to their best business customers.

(c) Federal funds rate is the interest rate that banks charge each other on loans (usually overnight). When the media discusses a rate hike or reduction by the Fed they are referring to the federal funds rate.

(d) Open-market operations is the buying and selling of United States securities by the Fed to affect the money supply.

(2) Describe how the Fed uses reserve requirements to regulate the money supply.

(a) By increasing the reserve requirement the Fed would require all banks to hold more reserves, thus decreasing the money supply. Banks would have to call in loans sell securities or borrow from another bank. Because even small changes to the reserve requirements can have a major effect this tool has not been used in recent years.

(3) Describe how the discount rate affects the money supply.

(a) If the discount rate is high the bank would pass the increased cost on to customers thus discouraging borrowing. However if the discount rate is lowered more people would be able to borrow.

(4) Describe how the federal funds rate affects the money supply.

(a) A drop in the federal funds rate would increase economic activity the reverse is true when the rate is increased.

(5) Describe how the Fed uses open market operations to control the money supply.

(a) This is a major tool of the Fed. When the fed buys securities such as Treasury bills-it will increase the reserves of the security dealers bank, thus making more money available for expansion.

(6) List some of the difficulties of monetary policy.

(a) It is hard to gather accurate date about the amount of M1 and M2.

(b) Political pressure

(c) Sometimes the results take a while to occur.

(7) Describe who Alan Greenspan is and the current chairman of the Federal Reserve Bank.

(a) Alan Greenspan was a big believer in that the banking system could regulate itself. He retired in 2006. The current chairman of the Fed is Fred Bernanke.

d) Chapter 16: Government Spends, Collects and Owes

i) Section 1. Growth in the Size of Government

(1) Define public works projects, Medicare and bailout

(a) Public works projects are publicly used facilities such as schools and highways, built by federal, state or local governments with public money.

(b) Medicare is the government program that provides healthcare for the aged.

(c) Bailout is a government subsidy to a business or bank.

(2) List five ways the government gets involved in the economy.

(a) Transportation

(b) Education

(c) Product safety

(d) Worker safety

(e) Taxation

(3) List the two measurements of government growth.

(a) Direct government spending as a percentage of GDP (currently more than one third of GDP)

(b) Private sector spending required by law.

(4) Identify the economic policies of John Maynard Keynes.

(a) Originated Keynesian economics which supports the use of government spending and taxing to help the economy.

ii) Section 2. The Functions of Government

(1) Define: public goods, income redistribution, social insurance programs, social security, Workers compensation, public-assistance programs, welfare, Supplemental security income, temporary assistance for needy families, Medicaid, externalities.

(a) Public goods are goods or services that the government supplies to its citizens; can be used by many individuals at the same time without reducing the benefit each person receives.

(b) Income redistribution is the government activity that takes income from some people through taxation and uses it to make payments to help citizens in need.

(c) Social insurance programs are government programs that pay benefits to retired and disabled workers, their families and the unemployed.

(d) Social security is the federal program that provides monthly payments to people who are retired or unable to work.

(e) Workers compensation is the government program that extends payments for medical care to workers on the job.

(f) Public-assistance programs/welfare is government programs that make payments to citizens based on need.

(g) Supplemental security income is federal programs that include food stamps and payments to the disabled and aged.

(h) Temporary Assistance for the needy Families is a state-run program that provides assistance and work opportunities to needy families.

(i) Medicaid is a state and federal assistance program that helps pay health care costs for low-income and disabled persons.

(2) List the four major functions of government.

(a) Providing public goods

(b) Redistributing income

(c) Regulating economic activity

(d) Ensuring economic stability

(3) Describe the two ways the government tries to redistribute income.

(a) Using tax receipts to assist citizens in need for

(i) Social insurance programs

(ii) And public assistance programs

(4) Name ways the government regulation affects the economy

(a) Protecting consumers

(b) Supervising labor and management relations

(c) Promoting competition

(d) Regulating negative by-products of the production process.

(5) Describe some criticisms of government involvement in the economy.

(a) Merit goods should be provided by private organizations

(b) Government assistance discourages personal initiative

(c) Government regulations raise the price of goods.

iii) Section 3. The Federal Budget and the National Debt

(1) Define the following terms: fiscal year, budget deficit, deficit financing, national debt and budget surplus

(a) Fiscal year is the year by which accounts are kept; for the federal government its October 1 to September 30 of the next year.

(b) Budget deficit when the amount of government spending exceeds its receipts during the fiscal year.

(c) Deficit financing is the government policy of spending more money than it is able to take in through revenues.

(d) National debt is the total amount of outstanding debt for the federal government.

(e) Budget surplus is the situation when the amount of government receipts is larger than its expenditures during the fiscal year.

(2) List the five largest areas of federal spending.

(a) See chart on page 436; Income security, national defense, interest, health, other

(3) List the five largest state and local expenses.

(a) Intergovernmental, public welfare, education, other, insurance.

(4) Relate government spending to the national debt.

(a) The government usually spends more that it takes in.

iv) Section 4. Taxation

(1) Define: benefits received principle, ability to pay principle, proportional tax, progressive tax and regressive tax.

(a) Benefits received principle is the system of taxation in which those who use a particular government service support it with taxes in proportion to the benefit they receive; those who do not use the service do not pay taxes for it. i.e.; gasoline tax

(b) Ability to pay principle is the principle of taxation in which those with higher incomes pay more taxes than those with lower incomes regardless of the number of government services they use.

(c) Proportional tax is a tax that takes the same percentage of all incomes; as incomes rises, the amount of tax paid also rises.

(d) A progressive tax is a tax that takes a larger percentage of higher incomes than lower incomes; justified on the basis of the ability-to-pay principle.

(e) A regressive tax is a tax that takes a larger percentage of lower incomes than of higher incomes.

(2) List the three major forms of taxation.

(a) Proportional tax

(b) Progressive tax

(c) Regressive tax

(3) Define the two principles of taxation

(a) The benefits received principle

(b) The ability to pay principle

(4) List the major taxes

(a) Personal Income, Social insurance, Corporate Income, Excise, Estate, Inheritance, Gift, Sales, Property, Customs duties

e) Chapter 17: Stabilizing the National Economy

i) Section 1. Unemployment and Inflation

(1) Define; stabilization policies, unemployment rate, full employment, underground economy, demand-pull inflation, stagflation, cost-push inflation

(a) Stabilizing policies are attempts by the federal government to keep the economy health; this includes fiscal and monetary policies.

(b) Unemployment rate is the percentage of the civilian labor force that is unemployed but is actively looking for work.

(c) Full employment is a condition of the economy when the unemployment rate is lower than a certain percentage established by economists' studies.

(d) The underground economy refers to transactions by people who do not follow federal and state laws with respect to reporting earnings.

(e) Demand-pull inflation is the theory that prices rise as a result of excessive business and consumer demand; demand increases faster than total supply resulting in shortages that lead to higher prices.

(f) Stagflation is the combination of inflation and low economic activity.

(g) Cost-push inflation is the theory that higher wages and profits push up prices.

(2) Name the two biggest threats to a nation's economic stability.

(a) Unemployment and inflation

(3) Explain the two problems the government faces in measuring unemployment.

(a) Government statistics can not measure everybody in and out of the labor force

(b) The underground economy

(4) List the four kinds of unemployment

(a) Cyclical, structural, seasonal, and frictional; see chart on page 453

(5) Explain how demand-pull inflation differs from demand-push inflation

(a) With demand-pull inflation prices rise because of excessive business and consumer demand

(b) Wage demands of labor unions and the excessive profit margins of large corporations push up prices. The combination of inflation and low economic activity is called stagflation.

ii) Section 2 The Fiscal Approach to Stabilization

(1) Define fiscal policy and the circular flow of income

(a) Fiscal policy is the government's use of taxation and spending policies to affect overall business activity.

(b) Circular flow of income is an economic model that pictures income as flowing continuously between businesses and consumers.

(2) Describe how income flows between business and consumers.

(a) Income flows from businesses to households as wages, rents, interests and profits. Income flows from households to business as payment for goods and services. However some income is removed from the economy through consumer saving and government taxation. This is referred to as leakage.

(3) Describe how the federal government uses <u>fiscal policy</u> to combat unemployment.

(a) Starting jobs programs for public works projects.

(b) Cutting federal taxes to speed up business expansion. These are called supply-side. President Bush used this argument to promote his Jobs and Growth Tax Act of 2003.

iii) Section 3 Monetarism and the Economy

(1) Define monetarism, monetarists, monetary rule, time lags.

(a) Monetarism is the theory that deals with the relationship between the amounts of money the fed places in circulation and the level of activity in the economy.

(b) Monetarists are supporters of the theory of monetarism often linked with Milton Friedman.

(2) Describe how monetary policy is used to stabilize the economy.

(a) Monetarists generally oppose to using fiscal policy or monetary policy to stimulate or slow the economy.

(b) They do not believe the government should operate with deficits. Instead they believe the government should balance the budget. This would keep the government from competing with private businesses for borrowed money. It would also lower the interest rate the government has to pay each year. The fed should stop trying to smooth out the ups and downs in the economy. Instead through a monetary rule they should allow the money supply to grow slowing and consistently. According to monetarists this would result in a controlled expansion of the economy without rapid inflation or high unemployment. Monetarists had a major impact in the early 1980's. Monetarists feel that the theory of fiscal policy never matches the reality of fiscal policy because of

(c) The political process; politicians are looking out for themselves

(d) Time lags; it can take years for fiscal policy have an impact

(3) Identify Milton Friedman

(a) Won the Nobel prize for Economics in 1976

The Fed was largely responsible for converting what might have been a garden-variety recession, although perhaps a fairly severe one, into a major catastrophe. Instead of using its powers to offset the depression, it presided over a decline in the quantity of money by one-third from 1929 to 1933 ... Far from the depression being a failure of the free-enterprise system, it was a tragic failure of government.

—Milton Friedman, Two Lucky People, 233

(b) He died in 2006

(c) He felt the establishment of the Federal Reserve System put too much power in the hands of a few people.

Key people

Milton Friedman; page 466

Milton Friedman (July 31, 1912 – November 16, 2006) was an American economist and public intellectual, and a recipient of Nobel Prize in Economics. He is best known among scholars for his theoretical and empirical research, especially consumption analysis, monetary history and theory, and for his demonstration of the complexity of stabilization policy.[1] A global public followed his restatement of a political philosophy that insisted on minimizing the role of government in favor of the private sector. As a leader of the Chicago School of economics, based at the University of Chicago, he had a widespread influence in shaping the research agenda of the entire profession. Friedman's many monographs, books, scholarly articles, papers, magazine columns, television programs, videos and lectures cover a broad range of topics in microeconomics, macroeconomics, economic history, and public policy issues. The *Economist* hailed him as "the most influential economist of the second half of the 20th century…possibly of all of it".[2]

Originally a Keynesian supporter of the New Deal and advocate of high taxes, in the 1950s his reinterpretation of the Keynesian consumption function challenged the basic Keynesian model. In the 1960s he promoted an alternative macroeconomic policy called monetarism. He theorized there existed a "natural rate of unemployment" and he argued the central government could not micromanage the economy because people would realize what the government was doing and shift their behavior to neutralize the impact of

policies. He rejected the Phillips Curve and accurately predicted that Keynesian policies then in place would cause "stagflation" (high inflation and low growth).[3] Though opposed to the existence of the Federal Reserve, Friedman argued that if it exists that a steady expansion of the money supply was the only wise policy, and warned against efforts by the treasury or central bank to do otherwise.

Influenced by his close friend George Stigler, Friedman opposed government regulation of all sorts. He once stated that his role in eliminating the U.S. conscription was his proudest accomplishment, and his support for school choice led him to found The Friedman Foundation for Educational Choice. Friedman's political philosophy, which he considered classically liberal and libertarian, stressed the advantages of the marketplace and the disadvantages of government intervention and regulation, strongly influencing the outlook of American conservatives and libertarians. In his 1962 book *Capitalism and Freedom*, Friedman advocated policies such as a volunteer military, freely floating exchange rates, abolition of licensing of doctors, a negative income tax, and education vouchers.[4] His books and essays were widely read and even circulated underground behind the Iron Curtain.[5][6]

Friedman's methodological innovations were widely accepted by economists, but his policy prescriptions were highly controversial. Most economists in the 1960s rejected them, but since then they had a growing international influence (especially in the U.S. and Britain), and in the 21st century have gained wide acceptance among many economists. He thus lived to see some of his laissez-faire ideas embraced by the mainstream,[7] especially during the 1980s. His views of monetary policy, taxation, privatization and deregulation informed the policy of governments around the globe, especially the administrations of Ronald Reagan in the U.S., Brian Mulroney in Canada, Margaret Thatcher in Britain, Roger Douglas in New Zealand, and Augusto Pinochet in Chile, and (after 1989) in many Eastern European countries.

John Maynard Keynes; Page 428

John Maynard Keynes, 1st Baron Keynes (pronounced /ˈkeɪnz/ "cains") (June 5, 1883 – April 21, 1946) was a British economist whose ideas, called Keynesian economics, have had a major impact on modern economic and political theory as well as on many governments' fiscal policies. He advocated interventionist government policy, by which the government would use fiscal and monetary measures to mitigate the adverse effects of economic recessions, depressions and booms. He is one of the fathers of modern theoretical macroeconomics and considered by some to be the most influential economist of the 20th century.[1][2][3]

As Keynes recognises in his magnum opus, which was published in 1936, the *General Theory of Employment, Interest and Money*, his efforts challenged the economic paradigm. In the foreword to the German edition of the *General Theory*,[10] Keynes states

that "the theory of aggregated production, which is the point of the following book, nevertheless can be much easier adapted to the conditions of a totalitarian state (eines totalen Staates) than the theory of production and distribution of a given production put forth under conditions of free competition and a large degree of laissez-faire."

In this book Keynes put forward a theory based upon the notion of aggregate demand to explain variations in the overall level of economic activity, such as were observed in the Great Depression. The total income in a society is defined by the sum of consumption and investment; and in a state of unemployment and unused production capacity, one can *only* enhance employment and total income by *first* increasing expenditures for either consumption or investment. The book was indexed by Keynes's student, later the economist David Bensusan-Butt.

The total amount of saving in a society is determined by the total income and thus, the economy could achieve an increase of total saving, even if the interest rates were lowered to increase the expenditures for investment. The book advocated activist economic policy by government to stimulate demand in times of high unemployment, for example by spending on public works. The book is often viewed as the foundation of modern macroeconomics. Historians agree that Keynes influenced U.S. president Roosevelt's New Deal, but disagree as to what extent. Deficit spending of the sort the New Deal began in 1938 had previously been called "pump priming" and had been endorsed by President Herbert Hoover. Few senior economists in the U.S. agreed with Keynes in the 1930s. [6] With time, however, his ideas became more widely accepted.[11]

In his *magnum opus*, *The General Theory of Employment, Interest, and Money* (1936), Keynes laid the foundation for the branch of economics termed "Macroeconomics" today. Based on the methods devised by Alfred Marshall, he argued that macroeconomic relationships differ from their microeconomic counterparts because the ceteris paribus clauses ("all other things being equal") are not uniform across levels of aggregation. The innovation in his core argument is to stop taking prices and wages as perfectly flexible, arguing instead for a certain degree of stickiness. Thanks to stickiness, it is established that the interaction of "aggregate demand" (in his sense) and "aggregate supply" (in his sense) may lead to stable unemployment equilibria. His work on employment went against the idea that the market ultimately settles at a state of full employment - a central tenet of Classical economists. Instead he argued that there exists a continuum of equilibria, the full employment equilibrium position being just one of them. (This idea underlies the choice of the title "General Theory": the classical theory being just a special case.)

His main contribution can be seen in establishing an approach to macroeconomics that maintains its relationship to the underlying microeconomic behaviors, but assumes a form qualitatively different from microeconomic models. (This contrasts with the assumption made in New Classical Economics where macro relationships are modelled analogously to micro-relationships, →Robert Lucas, Jr.).

He assumed that (marginal) labour productivity decreases with expanding employment. This is incompatible with the empirical findings summarised in Okun's Law. He combined this position with the marginal productivity theory of wages, implying that real wages decrease with increasing employment. This was shown to be empirically incorrect by the economist Dunlop, and Keynes accepted this. Keynes also suggested in the *General Theory* that inflation would occur only near "full employment" (in his sense), but it has been observed in many cases that inflation creeps up in states of severe underemployment (Stagflation). The assumption entertained by Keynes that inflation can only occur near full employment is still maintained in modern macroeconomics (→NAIRU). Keynes held that the cause of unemployment is a too high rate of savings, or insufficient investment expenditure. He conjectured that the amount of labour supplied is different when the decrease in real wages is due to a decrease in the money wage, than when it is due to an increase in the price level, assuming money wages stay constant. This conjecture relates to the "actual attitudes of workers" and is "not theoretically fundamental", although the New Keynesian economics emphasises this point.

In his *Theory of Money*, Keynes said that savings and investment were independently determined. The amount saved had little to do with variations in interest rates which in turn had little to do with how much was invested. Keynes thought that changes in saving depended on the changes in the predisposition to consume which resulted from marginal, incremental changes to income. Therefore, investment was determined by the relationship between expected rates of return on investment and the rate of interest.

Alan Greenspan; page 418

Alan Greenspan (born March 6, 1926 in New York City) is an American economist and was from 1987 to 2006 the Chairman of the Federal Reserve of the United States. He currently works as a private advisor, making speeches and providing consulting for firms through his company, Greenspan Associates LLC.

First appointed Fed chairman by President Ronald Reagan in August 1987, he was reappointed at successive four-year intervals until retiring on January 31, 2006 after the second-longest tenure in the position. He was lauded for his handling of the Black Monday October 19, 1987 stock market crash, which occurred very shortly after he first became chairman, as well as for his stewardship of the Internet-driven, "dot-com" economic boom of the 1990s. This expansion eventually ended in a burst in March 2000 leading to an economic downturn, including negative GDP growth in the first quarter of 2001.[1]

After 2001, some congressional leaders and others criticized him, for certain statements they found to overstep the Fed's traditional purview of monetary policy,[2] and for other statements they saw as overly supportive of the policies of President George W. Bush. In 2004 Business Week Magazine criticized his keeping of low interest levels too long and

his concurrent praise of sub-prime lending vehicles such as ARMs as leading to a housing bubble.[3] Some, including Nobel Prize-winning economists Joseph E. Stiglitz and Paul Krugman, attribute a large degree of culpability for the devastating Economic crisis of 2008 to Greenspan. Stiglitz stated that Greenspan "didn't really believe in regulation; when the excesses of the financial system were noted, (he and others) called for self-regulation—an oxymoron."[4] Greenspan, according to *The New York Times*, says he himself is blameless.[5] Krugman has repeatedly expressed his view that Greenspan is the person most responsible for the crisis.[6] However, on April 6, 2005 Greenspan called for a substantial increase in the regulation of Fannie Mae and Freddie Mac: "Appearing before the Senate Banking Committee, the Fed chairman, Alan Greenspan, said the enormous portfolios of the companies - nearly a quarter of the home-mortgage market - posed significant risks to the nation's financial system should either company face significant problems."[7] Despite this, Greenspan still claims to be a firm believer in free markets. He was also nicknamed "the maestro" after his tenure at the U.S. central bank coincided with a lengthy period of strong economic growth.[8]

All considered, during his tenure Greenspan was the leading authority on American domestic economic and monetary policy, and his active influence continues.[9]

Ben Bernanke

Ben[1] **Shalom**[2] **Bernanke** (pronounced \ber-NAN-kee\, \bər-'nan-kē\ or \bə˞.ˈnæn.ki\) (born December 13, 1953) is the incumbent Chairman of the Board of Governors of the United States Federal Reserve. Bernanke succeeded Alan Greenspan on February 1, 2006. He is ranked 4th most powerful person in the world in an annual ranking by Newsweek.

He has given several lectures at the London School of Economics on monetary theory and policy and has written three textbooks on macroeconomics, and one on microeconomics. He was the Director of the Monetary Economics Program of the National Bureau of Economic Research and the editor of the American Economic Review. He is among the 50 most published economists in the world according to IDEAS/RePEc.

Bernanke is particularly interested in the economic and political causes of the Great Depression, on which he has written extensively. On Milton Friedman's ninetieth birthday, November 8, 2002, he stated: "Let me end my talk by abusing slightly my status as an official representative of the Federal Reserve System. I would like to say to Milton and Anna: Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again."[17][18][19]

In 2002, when the word "deflation" began appearing in the business news, Bernanke gave a speech about deflation.[20] In that speech, he mentioned that the government in a fiat

money system owns the physical means of creating money. Control of the means of production for money implies that the government can always avoid deflation by simply issuing more money. (He referred to a statement made by Milton Friedman about using a "helicopter drop" of money into the economy to fight deflation.) Bernanke's critics have since referred to him as "Helicopter Ben" or to his "helicopter printing press". In a footnote to his speech, Bernanke noted that "people know that inflation erodes the real value of the government's debt and, therefore, that it is in the interest of the government to create some inflation."[20]

He is believed to be less ideologically rigid than Alan Greenspan and has been reluctant to weigh in on political issues. For example, while Greenspan publicly supported President Clinton's deficit reduction plan and the Bush tax cuts, Bernanke, when questioned about taxation policy, said that it was none of his business, his exclusive remit being monetary policy, and said that fiscal policy and wider society related issues were what politicians were for and got elected for. Indeed, in his undergraduate economics textbooks he somewhat distances himself from the rhetorical economic libertarianism of Greenspan.[*citation needed*]

His first months as chairman of the Federal Reserve System were marked by difficulties communicating with the media. An advocate of more transparent Fed policy and clearer statements than Greenspan had made, he had to back away from his initial idea of stating clearer inflation goals as such statements tended to affect the stock market.[21] Maria Bartiromo disclosed on CNBC their private conversation on Fed policy (in which Bernanke said investors had misinterpreted his comments as indicating that he was "dovish" on inflation), and he was criticized for making public statements about Fed direction.[22] Presidential candidate and Texas representative Ron Paul, a member of the House Banking Committee - who takes the view that the Federal Reserve System should be abolished and the economy should revert to 'Hard Assets'[23] - has criticized Bernanke for "continually lowering interest rates," which he avers to have caused drastic inflation and unnecessary growth of the money supply, leading to what Paul refers to as the "inflation tax."[24] However, many professional economists argued that *failure* to have lowered the Fed's target rate would have contributed far more significantly to recession, and urged Bernanke (and the rest of the Federal Open Market Committee) to lower the rate beyond what it had done. For example, Lawrence H. Summers, the Charles Eliot Norton Professor of Economics at Harvard and former Treasury Secretary, wrote in the *Financial Times* on November 26, 2007 - in a column in which he argued that recession was likely - that "....maintaining demand must be the over-arching macro-economic priority. That means the Federal Reserve System has to get ahead of the curve and recognize - as the market already has - that levels of the Federal Funds rate that were neutral when the financial system was working normally are quite contractionary today."[25]

David Leonhardt of *The New York Times* wrote, on January 30, 2008, that "Dr. Bernanke's forecasts have been too sunny over the last six months. [On] the other hand, his forecast was a lot better than Wall Street's in mid-2006. Back then, he resisted calls for further interest rate increases because he thought the economy might be weakening.

He was dead-on right about that — and the situation would be even worse now if he had listened to his critics then."[26]

On March 16, 2008, JPMorgan Chase announced its intention to acquire Wall Street investment bank Bear Stearns Inc. The proposed purchase is controversial due to the unprecedented involvement of the Federal Reserve System. [27] JPMorgan Chase agreed to pay $236 million, but shortly after the deal was announced, the Federal Reserve System confirmed that in a complex package of debt securitization agreements, they were underwriting the deal for around $30 billion.

In view of his current position as fed chair, Bernanke also sits on the newly established Financial Stability Oversight Board that oversees the Troubled Assets Relief Program

Bernake's future as Federal Reserve chairman became uncertain on November 21, 2008 when it was announced that President-elect Barack Obama would name Tim Geithner as Treasury Secretary over Larry Summers, leading to speculation that Obama was positioning Summers as Bernanke's successor. Summers was picked to run the National Economic Council. Two Obama advisers said that Summers would be the leading candidate to become the next Federal Reserve chairman should Mr. Obama choose not to reappoint Bernanke when his term ends Jan. 31, 2010. [15] [16]

D. Procedure of Presentation

1. Daily lessons

a. Day 1

i. Chapter 33, Section 1, Objectives i-iv

ii. Procedures

1. Introduce chapter
2. Focus and motivate
3. Read section SQ3R
4. Discuss key questions

5. Chart Cause and Effects
6. Group discussion-Cold War around the world
7. Closure
8. Assignment; read Section 2

a. Day 2

i. Chapter 33, Section 2, Objectives i-iii

ii. Procedures

1. Focus and motivate
2. Discuss key questions
3. Web Diagram: Chinese opponents
4. Role play; Nationalist and Communists daily life
5. Interpreting charts
6. Closure
7. Assignment; read Section 3

b. Day 3

i. Chapter 33, Section 3, Objectives i-ii

ii. Procedures

1. Focus and Motivate
2. KWL Korean War
3. Timeline wars in Korea and Vietnam
4. Discuss key questions
5. KWL Vietnam
6. Biography; Ho Chi Minh

7. Connect Vietnam to today; Capitalism in Vietnam
8. Closure
9. Assignment; use internet to research Vietnam, read Section 4

c. Day 4

i. Chapter 33 Section 4, Objectives, i-iii

ii. Procedures

1. Focus and Motivate
2. Review internet search
3. Discuss key questions
4. Chart Cold War Hot Spots
5. Role Play Cuban Missile Crises
6. Read " The Hostages Remember" (Extra Credit)
7. Closure

d. Day 5

i. Chapter 33, Section 5, Objectives, i-iii

ii. Procedures

1. Focus and Motivate
2. Collect papers on "The Hostages Remember"
3. Discuss main ideas and why it matters now
4. Read section aloud
5. Discuss key questions

6. Focus on key players of time; Imre Nagy, Alexander Dubcek, Nixon, Brezhnev
7. Group brainstorm; The Brezhnev Doctrine
8. Critical thinking; Perceiving Cause and Effects, Superpowers Face Off
9. Cooperative activity; Timeline
10. Closure

e. Day 6

i. Chapter 34, Section 1, Objectives i-iii

ii. Procedures

1. Introduce chapter; Connect History with Geography
2. Discuss main ideas and why they matter now
3. Read Section
4. Discuss key questions
5. Map The Indian subcontinent
6. Cooperative activity; Writing Indian political Statements
7. Closure

f. Day 7

i. Chapter 34, Section 2, Objectives i- iii

ii. Procedures

1. Focus and Motivate
2. Read Section

3. Discuss key questions
4. Web Diagram
5. Assign Book Report ; The Year Of Living Dangerously
6. Map Southeast Asia 1945-1975
7. Map Indonesia and Malaysia 1945-1976
8. Assignment read section 3
9. Closure; Arrange events in sequential order

g. Day 8

i. Chapter 34, Section 3, Objectives, i-v

ii. Procedures

1. Five minute warm up
2. Read section Discuss key questions
3. Group Activity; Discuss and report on how Cold War impacted Africa, Web Diagram
4. Connect African nations to today
5. Focus on key people: Kwame Nkrumah, Jomo Kenyatta
6. Discuss Islamic resurgence
7. Closure : Decisions for Democracy
8. Assign Homework; Section 4

h. Day 9

i. Chapter 34, Section 4, Objectives i-iv

ii. Procedures

1. Focus and Motivate

2. Discus main idea and why it matters now
3. Read section
4. Discuss key questions
5. Focus on History Makers; Golda Meier
6. Cooperative Activity; Focus on Peace Agreements: Camp David Accords, Oslo Peace Agreement, The Balfour Declaration
7. Closure; Time Machine Overhead
8. Quiz on chapter 34

i. Day 10

i. Chapter 35 Sections 1, Objectives i-v

1. Focus and motivate
2. Read section 1
3. Discuss the Democracy movement in Latin America
4. Chart making Democracy work; Web Diagram
5. Discus Mexico's economic crisis
6. Create a timeline of Latin American struggles for Democracy
7. Closure
8. Assignment; Read chapters 35 Sections 2, 3 and 4

j. Day 11

i. Chapter 35, Section 2, Objectives i-iv

ii. Procedures

1. Focus and Motivate
2. Cooperative activity; compare Mandela and de Klerk
3. Focus on civil right struggles in African then and now
4. Video: Struggling Toward Democracy Revolutions in Latin America and South Africa
5. Closure

k. Day 12

i. Chapter 35 Section 3 and 4 Objectives, i-iv

1. Focus and warm Up
2. Critical thinking Analyzing cause and effect
3. Focus on history makers; Mikhail Gobachev, Lech Walesa, Vaclav Havel
4. Political Cartoon in Text
5. Map; The breakup of the Soviet Union
6. Map; The former Yugoslavia
7. Cooperative activity; Prepare a news cast on fall of Berlin Wall
8. Closure activity; predict the future

l. Day 13

i. Chapter 35 Section 5 Objectives i-iv

ii. Procedures

1. Focus and Motivate

2. Read Section
3. Discuss key questions
4. Group activity; Debate the democracy movement in China
5. Closure; Overhead Democratic Struggles around the Globe

m. Day 14

i. Chapter 36 Section 1-2 Objectives, i-iv

ii. Procedures

1. Focus and Motivate
2. Cooperative Activity; Sputnik exercise; Teaching from documents
3. Cooperative activity continued; Dramatizing space travel and brainstorming benefits of the Space race

n. Day 15

i. Chapter 26 Sections 2-4 Objectives, i-iv

ii. Procedures

1. Focus and Motivate
2. Discuss Chart on Economic impact of Technology and changes in Communication
3. Spotlight on the Pacific Rim

4. Discuss Global development
5. Cooperative activity; Outline a Nobel Prize Acceptance Speech on the Environment
6. Review Test Materials
7. Closure

o. Day 16

i. Unit Test

ii. Hand in Book Reports