Economic Charts Essay, Research Paper

DEMAND AND SUPPLY MODEL 1.The Supply and Demand Model shows the price and quantity combination individual buyers will purchase and suppliers will offer for sale for a specific product, market and time.2. A movement between one price and quantity combination, within the same schedule, is a change in quantity demanded or supplied. A development of an entirely new set of price and quantity combinations is a change in demand or supply.3.The law of demand states that people will buy more at lower prices and less at higher prices. With this demand and utility (satisfaction) are directly linked because buyers attempt to maximize their utility compared with their income and the prices of items.4.The “Law of Supply” is based upon the profit motive and the desire of individuals to use factors of production for their personal benefit. The “Law of Supply” states that sellers will produce and sell more of a product or service at a higher price than a lower price.5.A “substitute good” is an item we can directly exchange for another.. When two products are substitutes, there is a direct relationship between the price of one good and the demand for the other. If the price of a substitute good rises, the demand for the exchange good increases.6.”Complementary goods” are items we use together. The sale of one good usually means the sale of its complement. When two goods are complements, there is an inverse relationship between the price of one good and the demand for the other.7. The income effect suggests people can buy more if the prices of items in the market basket are less. The substitution effect suggests people will substitute cheaper goods for more expensive ones to consume more.PRODUCTION POSSIBILITIES MODEL 1.The Production possibilities model shows the maximum production of two goods in a two good economy assuming that resources and technology are fixed; the economy is at maximum efficiency and the economy can produce only two goods; to get more of one good the society must give up an increasing amount of the other because resources are limited and not directly substitutable; a society can only consume more than it can produce if it engages in foreign trade.2.During the Great Depression, the U.S. experienced massive unemployment and under use of resources. As war became evident, government planners started to shift the economy toward full production and employment converting its economy from the production of peace time goods into the “arsenal of democracy” the capacity of the U.S. economy increased because we never lost any production facilities during the war.3.Germany had massive under employment in the late 1920 s through the mid-1930 s. Hitler provided many jobs to Germans producing the weapons to make the “Herenfolk” masters of the world Nazi Germany lost the war when it could no longer produce the weapons of war. The U.S. and our allies won the war by ending the ability the Germans had to keep fighting a war.4.Because Japan imports 98% of its resources, they needed to expand its resource base. Massive fire bombings reduced Japanese industrial capacity, but it did not stop them. Not until the dropping of the nuclear bombs on the cities of Hiroshima and Nagasaki, which both had a military-industrial complex, did the Japanese surrendered. They did so because they realized we had the capability to destroy every major city in Japan and with that their ability to fight in the war.PHILLIP S MODEL 1.The logic of the Phillip s model is based upon an analysis of the intermediate range of aggregate supply schedule. The intermediate A, is the transition phase from unemployment-underproduction to a full employment-full production economy.2.During the Kennedy administration there was an economic recession. To stop this recession, President Kennedy put a tax cut into place. This tax cut ended the recession and brought the economy toward full employment.3.President Johnson decided to fight the war on poverty by injecting money into the U.S. economy. He caused inflation because there was too much money chasing too few goods. Households and businesses began to anticipate inflation and demanded higher wages that rose when prices increased.4.LBJ also tried to execute the Vietnam War using money from the “black budget”. It is estimated that he pumped about $3 billion a month into the economy, which later proved to cause stagflation. Stagflation is an economy that has increase in unemployment and increases in the inflation rate at the same time.5.After Richard Nixon assumed the presidency the economy went out of control because he began a wage and price freeze as a means to stop the wage and price spiral.6.After Nixon, Carter headed the economy for a “meltdown”. The stated annualized inflation rate under Carter was 15%, with the prime rate reaching 21%. The unemployment rate reached as high as 9%.

7.We found out through computer modeling and research that there are no defined relationships between the unemployment and inflation rates. So in other words the model doesn t work. KEYNESIAN CLASSICAL AGGREGATE DEMAND AND SUPPLY MODEL 1. Economist use the Keynesian Classical model to explain government s direct participation in the economy. It shows the government can lower the rate of unemployment up to full employment with no change in the rate on inflation.2. If the government over stimulates the economy by lowering taxes or increasing government spending too much there will be demand pull inflation. If suppliers in the economy all raise their prices at once there will be cost push inflation. The model shows the value of the GNP at varies prices levels. If the price level is high, the value of the GNP is lower. As the price level falls the value of the GNP is higher.3. The model works because of the idea of aggregate total demand. When government lowers taxes and increases spending, households have more money. As households go back to work, aggregate demand increases, more money is spent. Eventually, demand is so strong business can not meet the increase in demand without expanding their capacity. Business go to the bank and borrow money.4. The Keynesian Classical model is non-predictive. It is non-predictive because business do not always borrow money to expand production. REAL WORLD AGGREGATE DEMAND AND SUPPLY MODEL 1. The real world aggregate demand and supply model variables are AS1, AS2, ( aggregate supply ) AD1, AD2, ( aggregate demand) Price Level on the y axis, the Gross National Product on the x axis, rate of unemployment, and rate of inflation.2. The aggregate demand model shows the transition from unemployment to full employment to inflation. To bring the economy to full employment government needs to cut taxes and increase government spending. The recessionary gap is when the economy is working below full employment. When this happens the households accumulate more money and spend more. As business grows from the increased spending they borrow money from banks to expand production. The result from business expanding is the economy grows.3. The real world aggregate demand and supply model comes from Keynesian Classic Model. It is the focal point where the economy goes from unemployment to full employment to inflation. AGGREGATE EXPENDITURE AND INVESTMENT MODEL 1.The aggregate expenditure and investment model shows the economy of the Great Depression. The model has three component recessionary, full employment, and inflation.2.The recessionary gap is when the economy is working below full employment. John Maynard Keynes developed a theory to bring the economy to full employment. At the time government played a limited role in the economy.3.Keynes explains that government needs to play more of a role to bring the economy to full employment. To do this government needs to cut taxes and increase government spending. By doing this it puts more money into the households. When the house holds get more they spend more. In time business will not be able to meet the needs of their customers. The business borrow money from banks to meet the demand. With the money they borrow they hire more employees. At this time the economy is at full employment.4.Anymore action by government will cause the economy to go to an inflationary gap. An inflationary gap is a period when the economy has too much money and not enough goods. LAFFER MODEL 1. The Laffer model shows the maximum amount of tax revenue. A the of the model is point n. At point n taxes are too high and government will not collect the maximum revenue. In the middle is point m. Point m is the point were the maximum revenue of tax is collected. At the bottom of the model is point l. Point l is the point where government is not charging enough tax and is loosing revenue.2. To prove the Laffer Model does not work our group got information from www.louisville.edu/ kmosta01/rafal.html. This wed page was written by Rafal Borkowski and Krzysktof Ostaszewski. They explain that higher taxes have resulted increase in revenue in some cases. They also say in some cases higher taxes have resulted in lower taxes e.g. the luxury tax on boats that occurred in 1991.3. The report explains two reasons why the Laffer model does not work. The first reason is no one knows what the maximum about of tax that the government can charge to receive the maximum amount of revenue. The second reason is the maximum amount tax is always evolving. Since the maximum amount of tax is unknown and the amount is always evolving the Laffer model can not work.