

Chapter 25 Project

The Keynesian Perspective

Purpose

In this chapter, you have learned the determinants of aggregate demand. You have also learned how macroeconomic equilibrium changes due to shifts in aggregate demand, including the multiplier effect of spending changes. You have studied how the perceived relationship between unemployment and inflation can be evaluated, and you have also learned the zones along the aggregate supply curve.

The purpose of this project is to identify specific changes in aggregate demand components and make distinctions between zones of the real-world aggregate supply curve. You will also apply the Phillips curve to aggregate data and changes to factor prices.

Directions

This project has three parts. In the first, you will work on your own and then with a classmate to apply the concepts of aggregate demand components to real economic events.

In the second, you will identify the zone of the aggregate supply curve where macroeconomic equilibrium occurs.

In the third, you will apply the Phillips curve individually and then with a classmate.

Part 1 - Aggregate Demand in the News

Review the following articles:

1. “Congressional Budget Office: Budget Deficit Grows \$39B in First Quarter” (hawkes.biz/AD1)
2. “Consumer Index Sinks to All-Time Low” (hawkes.biz/AD2)
3. “U.S. Firms Pull Back on Investment” (hawkes.biz/AD3)
4. “China’s Economic Slowdown” (hawkes.biz/AD4)

Explain how each event would affect aggregate demand in the U.S. economy. Be sure to include the component of aggregate demand that contributes to the overall shift.

For each component of AD, research and provide an article headline and link. Also, explain the direction that AD will shift.

- Consumption expenditure
- Investment expenditure
- Government spending
- Spending on net exports (exports minus imports)

Exchange your list with another classmate. Check your classmate's work for accuracy and answer the following questions for each link. Provide your classmate's headlines, article links, aggregate demand applications, and your feedback. Remember to include the name of the classmate that you exchanged headlines with.

Did each article relate to the component of aggregate demand that your classmate chose? Explain why or why not.

Did your classmate correctly determine how aggregate demand would shift? Explain why or why not.

Part 2 - Determining Aggregate Supply Zone

For the following "headlines," assume that the average annual economic growth rate is 3%, and the normal annual inflation rate is 2%. Indicate and explain which zone of the real-world aggregate supply curve would best apply. Also, describe the slope of the real-world aggregate supply curve zone.

Headline 1

The annualized economic growth rate has slipped to -5%, while the annual inflation rate is 1%. Aggregate demand continues to decline.

Headline 2

The annualized economic growth rate is 1.5%, while the annual inflation rate has increased to 6%. Aggregate demand in the economy continues to rise.

Headline 3

The annualized economic growth rate is 3%, while the annual inflation rate is 2%. The unemployment rate is consistent with the natural rate of unemployment.

Part 3 - Applying the Phillips Curve

Review the following hypothetical unemployment rates, considering 4% unemployment to be the level of full employment. Assuming a normal and expected inflation rate of 2% annually, fill in hypothetical inflation rates that would be consistent with the Phillips curve.

Year	Unemployment Rate	Inflation Rate
2035	8%	
2036	6%	
2037	4%	
2038	2.5%	

Review this data (hawkes.biz/CrudeOil) provided by Macrotrends LLC on the trend of U.S. crude oil production over the past ten years. Assuming *ceteris paribus*, would this trend lead to a stronger inverse relationship between unemployment and inflation, as indicated by the Phillips curve?

 Checklist**Part 1**

- Read the provided articles.
- Connect a component of aggregate demand to each article.
- Describe the shift of aggregate demand for each article.
- Research a news articles for each component of aggregate demand.
- Describe the effect on aggregate demand for each article.
- Exchange and check classmate's articles.

Part 2

- Determine the appropriate aggregate supply zone.

Part 3

- Fill in hypothetical inflation rates in accordance with the Phillips curve.
- Review data and note trends of U.S. crude oil production.
- Explain possible future economic effect of trend.