Economics Review Sheet Test #4

I. Micro v. Macro Economics-

1. What is Microeconomics?
   a. The study of how ***individual people*** or companies make decisions and how those decisions affect others in the economy
      i. Takes a "**ground-up**" approach to analyzing the economy by trying to understand human choices and resource distribution.

2. What is Macroeconomics?
   a. The study of the behavior of the ***economy as a whole***, including ***entire industries and economies***, and not just on individuals or individual companies
      i. Takes a "**top-down**" approach by looking at economy-wide phenomena, and how the economy is affected by changes in unemployment, national income, rate of growth, and prices.
3. What study of economics would these questions be asked under (Micro or Macro)?

   a. "What determines whether Citibank opens a new office in Shanghai?" Micro

   b. "What influences the price of wheat?" Micro

   c. What causes the value of the U.S. dollar to change?" Macro

   d. "What determines the salary paid to workers in a given year?" Micro

   e. "How can the government create programs to lower the amount of people who are currently unemployed in the economy?" Macro

   f. "How many hours am I working per week?" Micro

   g. "What affect does government spending have on the economy?" Macro

   h. "How can the government create programs to lower the amount of people who are currently unemployed in the economy?" Macro

   i. "Is a college education a good investment?" Micro

II. Government Revenue and Spending-

1. How do all levels of government raise revenue? Through taxation

2. When the government spends more than it takes in as revenues, how does it make up the difference? It borrows money by selling off government securities

3. What is a government security? A bond issued by the government with a promise of repayment upon maturity

4. What are the 3 kinds of government securities?
    a. Treasury Bills (T-Bills)
    b. Treasury Notes (T-Notes)
    c. Treasury Bonds (T-Bonds)

5. What are T-Bills?
    a. A bond/security issued by the U.S. Treasury that matures in 4, 13, 26, or 52 weeks.
    b. They do not pay interest before reaching maturity
    c. They are the most **short-term** bond issued with a term of less than one year.

6. What are T-Notes?
    a. A bond/security issued by the U.S. Treasury that matures in 2, 3, 5 or 10 years.
    b. T-Notes pay interest while they mature

7. What are T-Bonds?
    a. A bond/security issued by the U.S. Treasury that matures in 30 years.
    b. T-Bonds pay interest while they mature
    c. They are the most **long-term** bond issued by the Government

8. What is the Federal Budget?
    a. A plan for how the federal government will spend money in a given year.
        i. The budget applies to the "**fiscal year**", which begins on **October 1** through September 30

9. What is Mandatory Spending?
    a. Government spending that is required by existing law.
    b. About **2/3** of the federal budget is set aside for mandatory spending.

10. What are some examples of Mandatory Spending? Social Security, Medicare & Health Insurance, Unemployment Insurance, etc.

11. What are entitlement programs? Programs that fall under the mandatory spending category

12. What is Dicretionary Spending? Government spending that is not required by law, but must be authorized annually by Congress and the President.

13. What are some examples of Discretionary Spending?
    a. Military & Defense, Education, Scientific Research, Housing & Community Development, Environment, etc.

III. Deficits and the National Debt-

1. What is national debt? Amount of money that the federal government has borrowed

2. What is our national debt? Around $19 Trillion (Debt per citizen 59,000)

3. What is budget deficit? When the government borrows or spends more than its earnings in a given year.

4. What is budget surplus? When the governments earnings are higher than the amount it borrows or spends in a given year.

5. When was the last time the US Government recorded a surplus?
    a. 1998-2001: Under Bill Clinton, the government finally recorded a surplus. 2001 was the last year the Clinton administration proposed the budget.
        i. The U.S. government suffered budget deficits every year from 1970 through 1997!

6. What is the national debt ceiling?
    a. The national debt ceiling, or limit, is the highest amount that the national debt can reach.
    b. This figure is authorized by Congress.
    c. Between 1940-2012, the national debt ceiling rose from **$45 billion** to **$16.4 trillion**

7. What Happens When The Government is in Danger of Reaching The Debt Ceiling?
    a. The government can "shut down"
    b. Raising of the debt ceiling
    c. Temporary suspension of the debt ceiling

IV. Great Recession of 2008-

What are the causes of the Great Recession?

1. The Bursting of the "Housing Bubble"
    a. A housing bubble is a buildup in housing prices fueled by demand and positive speculation
        i. Housing bubbles start with a steady increase in demand. At some point (usually after several years), demand decreases while supply increases, resulting in a sharp drop in prices (bubble bursts)
        ii. In 2006, the US housing market bubble burst. House prices started to fall, and there was a rise in mortgage defaults (nonpayment). Banks had lost significant sums of money through these mortgage defaults.

2. Subprime Mortgages
    a. A type of mortgage that is normally made out to borrowers with lower credit ratings.
        i. Lenders of a subprime mortgage often charge higher interest than a conventional mortgage in order to compensate themselves for carrying more risk
3. Bad Loans
    a. In the period leading up to the recession, banks became more willing to take risks in lending.
        i. Especially in America, banks and mortgage companies loosened their criteria for giving mortgages. Many homeowners were given large mortgages, *which they were unable to repay*

4. Rising Household/Personal Debt
    a. Increasing mortgage payments
    b. Increasing credit card payments
    c. Student loans