

- Macroeconomic policy involves combinations of fiscal and monetary policies.
- The inside lag is the amount of time it takes policy makers to recognize the economic situation and take action. The outside or impact lag is the amount of time it takes the economy to respond to the policy changes. The inside lag is long for fiscal policy and short for monetary policy. The outside lag is very short for fiscal policy and variable for monetary policy.
- Crowding-out is the effect on investment and consumption spending of an increase in interest rates caused by increased borrowing by the federal government. The higher interest rates crowd out business and consumer borrowing.
- A Phillips curve illustrates the trade-off between inflation and unemployment. The trade-off differs in the short and long run, varies at different times and is often different for increases and decreases in output.
- The short-run Phillips curve shows a trade-off between the inflation rate and the unemployment rate.
- The long-run Phillips curve is vertical.
- Both monetary and fiscal policies are primarily aggregate demand policies, but not all of the macroeconomic problems in the economy are aggregate demand problems.
- If factors other than excess aggregate demand are contributing to inflation, it is difficult for monetary policy to control inflation.
- The Barro-Ricardo effect is the possibility that government deficits will lead to an increase in private savings and a decrease in consumption, thus offsetting the effects of expansionary fiscal policy.
- Economic growth is concerned with increasing an economy's total productive capacity at full employment or its natural rate of output. This output is represented by a vertical long-run aggregate supply curve.
- Economic growth can be shown graphically as a rightward shift of a nation's long-run aggregate supply curve or a rightward shift of its production possibilities curve.
- Short-run economic growth is usually measured by changes in real gross domestic product or by changes in real GDP per capita.
- The rate of economic growth is affected by a variety of aggregate supply and aggregate demand factors.
- Different economic theories are only one reason why economists disagree. Other reasons are different assumptions, different values, different interpretations about economic history and different ideas about policy lags.