Long-Run Consequences of Stabilization Policies

AP Macroeconomics · Vocabulary in context

Word	Example
fiscal policy /ˈfɪskl ˈpɒlɪsi/	Changing taxes and government spending is **fiscal policy**.
monetary policy /ˈmʌnɪtəri ˈpɒlɪsi/	The central bank uses **monetary policy** when it changes interest rates.
money supply /ˈmʌni səˈplaɪ/	The **money supply** is the total amount of money in the economy.
Phillips curve /ˈfɪlɪps kɜːv/	The **Phillips curve** shows that low unemployment often comes with high inflation.
short-run Phillips curve (SRPC) /ʃɔːt rʌn ˈfɪlɪps kɜːv/	The **short-run Phillips curve (SRPC)** shows lower unemployment with higher inflation. (SRPC)
long-run Phillips curve (LRPC) /lɒŋ rʌn ˈfɪlɪps kɜːv/	The **long-run Phillips curve (LRPC)** is a vertical line. (LRPC)
natural rate of unemployment /ˈnætʃərəl reɪt ɒv ʌnemˈplɔɪmənt/	The **natural rate of unemployment** is the unemployment left when the economy is healthy.
supply shock /səˈplaɪ ʃɒk/	A **supply shock** from high oil prices shifts the SRPC to the right. SRPC
stagflation /stægˈfleɪʃn/	**Stagflation** is high inflation together with high unemployment.
expected inflation /ekˈspektɪd ɪnˈfleɪʃn/	When **expected inflation** rises, workers ask for higher wages.

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quantity theory of money /ˈkwɒntɪti ˈθɪəri ɒv ˈmʌni/	The **quantity theory of money** says MV = PY. $$MV = PY$$
hyperinflation /ˌhaɪpərɪnˈfleɪʃn/	**Hyperinflation** in Zimbabwe made prices double every day.
budget deficit /ˈbʌdʒɪt ˈdefɪsɪt/	A **budget deficit** means the government spends more than it collects in tax.
budget surplus /ˈbʌdʒɪt ˈsɜːpləs/	A **budget surplus** occurs when government revenue exceeds spending.
national debt /ˈnæʃənl det/	The **national debt** is all the money the government owes.
government bonds /ˈgʌvənmənt bɒndz/	The government sells **government bonds** to borrow money.
crowding out /ˈkraʊdɪŋ aʊt/	**Crowding out** happens when government borrowing leaves less money for firms.
demand for loanable funds	Heavy government borrowing raises the **demand for loanable funds**.
real interest rate /rɪəl ˈɪntrest reɪt/	The **real interest rate** is the interest rate minus inflation.
economic growth /ˌiːkəˈnɒmɪk grəʊθ/	**Economic growth** means the economy makes more each year.
real GDP per capita /rɪəl ˌdʒiː diː ˈpiː pɜː ˈkæpɪtə/	**Real GDP per capita** shows the average living standard.
physical capital /ˈfɪzɪkl ˈkæpɪtl/	Machines and factories are **physical capital**.

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human capital /ˈhjuːmən ˈkæpɪtl/	Training builds workers' **human capital**.
technology /tekˈnɒlədʒi/	New **technology** lets factories make more with fewer workers.
productivity /ˌprɒdəkˈtɪvɪti/	Better machines raise **productivity**: more output per hour.
infrastructure /ˈɪnfrəstrʌktʃə/	New roads and railways improve a country's **infrastructure**.
research and development /rɪˈsɜːtʃ ænd dɪˈveləpmənt/	**Research and development** creates and improves products and processes.
property rights /ˈprɒpəti raɪts/	Clear **property rights** show who owns the land.
rule of law	The **rule of law** means everyone, even leaders, must obey the law.

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