

BASIC ECONOMICS

CHAPTER 16: National Output

QUESTIONS

1. How can you tell what money is worth?

If you want to know the collectible value of your paper money, you can look at the serial numbers, series year, and printing errors on your bills.

2. In your own words, why do prices go up when people have more money to spend?

When people have more money, they tend to buy more things. This increases the demand for goods and services in the market. If the supply of those goods and services does not increase at the same rate, then there will be a shortage.

3. How does the government confiscate the value of our money through inflation?

Inflation is the general increase in the prices of goods and services over time. When inflation is higher than expected, it reduces the real value of money and the assets that are denominated in that money, such as government debt. This means that the government can pay back its debt with money that is worth less than when it borrowed it. This is one way that the government can confiscate the value of our money through inflation.

4. Why do people buy gold during times of high inflation?

Gold is subject to taxes and fees. Buying and selling gold may incur transaction costs, such as commissions, spreads, premiums, or storage fees.

5. How did politicians and/or the Federal Reserve make the Great Depression worse?

The Federal Reserve contracted the money supply by about 25 percent from 1929 to 1933, which reduced the availability of credit and increased the cost of borrowing. This caused deflation, which lowered the prices of goods and services, but also increased the real value of debts. This made it harder for businesses and consumers to repay their loans, leading to bankruptcies, bank failures, and reduced spending.