Macroeconomics 12th edition Slavin Solutions Manual

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CHAPTER 1 –
A Brief Economic History of the United States
Solutions Manual

Answers to Multiple-Choice Questions

1.	d	25.	c
2.	c	26.	c
3.	b	27.	f
4.	a	28.	d
5.	d	29.	a
6.	d	30.	a
7.	e	31.	c
8.	d	32.	e
9.	c	33.	b
10.	c	34.	b
11.	b	35.	d
12.	a	36.	b
13.	b	37.	c
14.	c	38.	c
15.	a	39.	d
16.	c	40.	a
17.	c	41.	c
18.	b	42.	b
19.	e	43.	b
20.	b	44.	a
21.	b	45.	a
22.	a	46.	b
23.	c	47.	c
24.	d	48.	d

Answers to Fill-In Questions

1. 1933
2. 9
3. December 2007
4. the United States
5. 25
6. Lyndon Johnson
7. 500
8. 3
9. a plenitude of land in comparison with amount of labor (or, a scarcity of labor).
10. government spending on World War II (the New Deal did not do the job)

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11. 12
12. 1875 (give or take a couple of years)
13. G.I. bill of rights
14. 20th
15. 7
16. $787 billion in economic stimulus bill
17. 35 percent to 21 percent

Answers to Questions for Further Thought and Discussion

1. *Describe, in as much detail as possible, the impact of the Great Depression on the lives of those who lived through it. If you know anyone who remembers the 1930s, ask them to describe those times.*

   Some of the things that typify those times were the breadlines, soup kitchens, hobo jungles, Hoovervilles, widespread unemployment and poverty. Also prominent were the New Deal, the collapse of the banking system, the foreclosed mortgages, and, perhaps most significant, the loss of hope by millions of Americans of ever making a decent living.

2. *What were the main agricultural developments over the last two centuries?*

   1834: Cyrus McCormick's mechanical reaper, which quadrupled output of farm workers by 1860.

   Late 1840s: John Deere began manufacturing steel plows.

   Other 19th century innovations: Appleby twine binder, the Marsh brothers' harvesting machine, the Pitts thresher, and Eli Whitney's cotton gin.

   Early 20th century: Gasoline-powered tractor

   Two other (nontechnological) developments were the federal government's willingness to give away 160-acre plots to anyone who would farm that land and, beginning in the 1930s, the federal government paid farmers hundreds of billions of dollars in price-support payments.

3. *How have wars affected our economy? Use specific examples.*

   The Civil War ended slavery, upon which much of Southern agriculture had been based. It also ensured that Northern industry would continue to be protected from European competition by high protective tariffs. In addition, General Sherman's army laid waste to a wide swath of the South.

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World War I and World War II were followed by long economic booms set off mainly by pent-up consumer demand for housing and cars. These wars, in addition to the Korean War and the Vietnam War, set off periods of inflation. Wars also sped up our rate of economic growth and reduced unemployment.

4. *Inflation has been a persistent problem for most of the 20th century. What were some of its consequences?*

   High rates of inflation led to credit tightening by the Federal Reserve, causing recessions in 1980 and 1981, as well as in other years. Inflation in the early 1970s—especially the quadrupling of oil prices—pushed us into a recession in 1973. During World War II, the Korean War, and again in the early 1970s, the federal government instituted price controls to fight inflation. Some critics thought the cure was worse than the sickness.

5. *In what ways were the 1990s like the 1920s, and in what ways were the two decades different?*

   In both decades there were economic booms, very low unemployment and inflation, and a rapidly rising stock market. The 1920s ushered in the era of mass consumption, the automobile became commonplace, and most homes were wired for electricity and telephones. In the 1990s, perhaps the only major new household appliance was the PC. The 1920s was a decade of mass production; the 1990s was a decade of customized production. Perhaps the greatest difference between the decades was that the 1929 stock market crash led to the Great Depression of the 1930s, while the New Economy that began to take off in the 1990s has continued to soar well into the new millennium.

6. *When our country was being settled, there was an acute shortage of agricultural labor. Over the last hundred years, millions of Americans have left the farms. How have we managed to feed our growing population with fewer and fewer farmers?*

   The main reason our farmers rapidly became more productive was the major technological innovations of the second half of the 19th century (outlined in the answer to question 2). The vast expansion of the railroads during this period opened huge markets for agricultural products.

7. *Today America has the world's largest economy as well as a very high standard of living. What factors in our economic history helped make this possible?*

   We can start with our vast land area, which provided enough acreage for virtually anyone who wanted to own a farm. Our fledgling industries were protected from foreign competition by a high protective tariff as well as a wide ocean. The railroads, rivers, as well as a system of canals, made a national market possible, and, in addition, connected our farmers and manufacturers to world markets. American manufacturers were helped by foreign investors, enabling us to expand our industrial output much faster. Most significant, the United States

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was a single national market using a single currency, with no internal barriers like protective tariffs to inhibit the movement of goods and services between states. The federal government, which initially intervened in our economy mainly to provide tariff protection to manufacturers, did not interfere with the industrialization process. Later, beginning with the New Deal during the Great Depression, the government did intervene to stimulate the economy, to fight inflation, and to provide a social safety net to most Americans.

8. *List the main ways the "new economy" (since the early 1990s) differs from the "old economy."*

   The new economy differs from the old economy in four basic ways: faster rates of technological change and productivity growth, and lower inflation and unemployment. It is marked by deregulation, lower tax rates, and a growing federal government budget surplus (as opposed to huge deficits). It is a time of economic boom and rapidly rising stock prices. It is an expansion that set an all-time record of 107 consecutive months in February 2000. The 1990s was the decade of computerization in both households and businesses, and the beginning of the age of the Internet.

9. *To what degree has the U.S. economy recovered from the Great Recession?*

   Answers should include references to the unemployment rate, total employment (and/or employment by sector), the rate of economic growth, and the current state of the economy, e.g. consumer and business optimism.

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