

Example of critical thinking on technical competency assessment

[Economics](#), [Money](#)



ECO 2105 – Principles of Macroeconomics

- How would building more universities change India's current and future production possibilities? Illustrate your answer by drawing India's current and future PPFs.

- Why is the reality of the unemployment problem in Michigan actually worse than the unemployment rate statistic of 15.2 percent?

Despite the unemployment problem in Michigan being high the real problem is the collapse of the auto industry combined with the housing crisis in the state. This means that the infrastructure needed to spur growth and subsequently employment will require revamping and will take time to be set up especially now that the large base of workforce relies on the auto industry. The state will not be able to recover in the short term and what transpires is increased poverty rates that will be made worse by housing crisis.

- Is this higher unemployment rate in Michigan frictional, structural, or cyclical? Explain.

The unemployment in Michigan is cyclical employment. It has been facilitated more by the collapse of the auto industry as a result of changing economic climate brought about by the looming recession.

- If the recovery continues and inflation starts to rise, what effect will the Fed's decision to not change the federal funds rate have on the U. S. economy?

The decision not to change the federal funds will mean that the economy remains stable by not becoming volatile as a result of increased circulating capital.

- If the economic recovery slows and the economy slips back into recession, what effect will the Fed's no-change decision have on the economy?

If the economy slips into the recession and in the event that Fed has released more cash it will have cautioned the economy from volatility and the effects of the recession will not be severely felt in the short term as long term solutions are being sought.

- Explain how the experts' advice will affect the market for loanable funds in the United States, in Japan, and in China.

This advice will mean flow of liquid capital among the influential world economies at present. China provides a proper market in terms of consumption hence market goods produced in the US will be flowing at a higher rate and increasing the coffers needed for loanable funds. For China, consumption means greater production too and therefore increasing industry activity which would mean more loanable funds generation. Japan through investment will offer the perfect platform on which to spur growth through using industrial products to in these investments. This circulation of funds among the three active economies will increase the amount of loanable funds.

- If the deficit-reduction plan includes a cut in transfer payments and a rise in taxes of the same amount, how will this policy influence the budget deficit and real GDP

The plan will leave the treasury with the authority to accumulate as much as debt as possible thereby ensuring increased funds for the budget while the GDP will ultimately lower. Spending among the citizens will increase while the production sector will be affected in the negative.

- How might a large increase in government spending and the government's budget deficit threaten financial stability and make the Fed's job harder?

The federal government's debt will increase at a very high rate and Fed will struggle to retain the reserves. It will be forced to release the reserves to the government and subsequently create a volatile economy.