1) **Business cycle-** Short run economic fluctuations

2) **Recession-** periods of falling real incomes and rising unemployment

3) **Depression-** Severe recessions (rare)

4) **3 Key Facts About Economic Fluctuations-** They are irregular and unpredictable, most macroeconomic quantities fluctuate together, and as output falls, unemployment rises.

5) **Classical dichotomy-** The separation of variables into two groups: real variables and nominal variable. Real variables-quantities, relative prices. Nominal Variables-measured in terms of money.

6) **Monetary neutrality-** Changes in the money supply affect nominal but not real variables. Most economists believe classical theory describes the world in the long run, but not the short run.

7) **What do classical economists and Keynesian economists say about monetary neutrality in the short run and the long run?** Most economists believe classical theory describes the world in the long run, but not in the short run.

8) **Know about the aggregate demand curve and why it slopes downward/? Know about the long run aggregate supply curve/short run aggregate supply curve and why it is vertical/ positively sloped?** The aggregate demand curve shows the quantity of all goods and services demanded in the economy at any given price level.

9) **Using the AD and the short run as well as the long run AS curves, show the long run and short run equilibrium.** Over the long run, technology progress shifts LRAS to the right. Growth in the money supply shifts AD to the right. Result: ongoing inflation and growth in output.

10) **What is the natural rate of output (or full-employment output)?** Full employment is often an aim for an economy, but most economists see it as more beneficial to have some level of unemployment, especially of the frictional sort.

11) **What causes the AD and the long run and short run AS curves to shift?** AD shifts because:

    1) Changes in I-
        - **a.** Better physical capital
        - **b.** Expectation of consumers
        - **c.** Interest rates, monetary policy