

1. Draw and label the business cycle.

2. What does “full employment” mean, and what happens if the unemployment rate falls below 4%?

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3. Define in your own words what inflation is. \_\_\_\_\_

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4. How many jobs per month must the economy be creating to keep up with population growth? \_\_\_\_\_

5. What is the Federal Funds Rate and what influence/effect does it have on the economy? \_\_\_\_\_

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Diagnose the condition of the economy in each of the following scenarios. Show visually where on the business cycle (mark it with an “X”) you believe the economy is and explain in writing why you think so. If you were the Federal Reserve and had the power over the Federal Funds Rate to raise it, lower it, or keep it the same, what would you do and why?

**Situation #1:**

GDP Growth Rate	-0.6%	Inflation Rate	0.4%
Unemployment Rate	8.6%	Federal Funds Rate	1.75%

**Situation #2:**

GDP Growth Rate	9.0%	Federal Funds Rate	3.25%
Unemployment Rate	2.3%	Inflation Rate	11.1%