Teacher Answer Key

Case Study

1. Mortgage defaults burst the housing bubble, bank losses contracted credit, and consumer spending fell.

2. The Fed cut rates & bought assets; Congress approved bank capital injections & fiscal stimulus.

Multiple Choice

1. A

2. D

3. B

Matching

1-D, 2-A, 3-E, 4-B, 5-C

Fill-in-the-Blank

1) recession, 2) quantitative easing, 3) AD-AS

Short Answer (Sample Responses)

Q1: They automatically boost spending when incomes fall and moderate booms when incomes rise.

Q2: It can later fuel inflation or create asset bubbles if rates stay low too long.

Q3: Output drops, price levels rise, and unemployment increases.