

Lecture 57 Summary

The modern economy of 1973 to 1981 was characterized by inflation. Inflation came about during the Vietnam War and Reagan's presidency, dealing mostly with Lyndon B. Johnson's policies of not raising taxes when he put into effect his "Guns and Better" policy that encouraged spending on both the Vietnam War and on poverty. The oil embargo of '73 also contributed to the already increasing inflation. The Embargo began with America's support for Israel during border conflicts with neighboring Arab nations. In retaliation, Arab nations such as Saudi Arabia, withheld oil, knowing the American economy was dependent on it. The second oil crisis occurred as a result of the formation of OPEC, an association of oil and petroleum exporting countries. It was an oil cartel and they raised the price of oil both the oil embargo and the oil crisis created shortages and increased the price of oil. The increased cost in transportation led to a rise in prices in all industries. This led to a decrease in the spending power of the dollar, leading to inflation. With the rise of prices, wages were raised to keep up so that people were able to buy the goods needed for survival. However, not all people benefited from the raise. People with fixed incomes such as the aging population suffer from not being able to make necessary purchases. The decreasing power of the dollar came about also as a result of money having sent out of the country to build new industries in foreign countries.

Terms:

Consumer price index – prices for goods consumers want

Significance – The lower the price for goods, the more consumers buy, thus helping out the economy. While the consumer price index did not change dramatically, a increase in inflation still left many families without the necessities of life.

"Guns or butter" – Johnson's policy of simultaneously spending on both the military and domestic programs

Significance – Johnson's program insisted on funding both the war in Vietnam and the war on poverty, this, coupled with his refusal to raise taxes increased the national debt, leading to inflation.

Ronald Reagan – President whose Reaganomics policy led to inflation and the Iran contra affair damaged his reputation

Significance – Reagan believed in the trickle-down theory, unfortunately that did not work too well. A large deficit in the treasury contributed to inflation.

OPEC – Founded in 1960, the Organization of Petroleum Exporting Countries raised the prices of oil from \$3 to \$12 in 1973 because of the Middle East's instability

Significance – OPEC in 1973 raised the price of oil, thus causing increases in the prices of products in all industries. This increased the price of goods and decreased the value of the dollar, a sign of inflation.

Lyndon B. Johnson – Southern President who helped pass the Civil Rights Act of 1964 and sought through his Great Society policy to help the poor and end racial injustice.

Significance – Johnson's "Guns and Butter" Policy left the nation in with a large debt, a result of deficit spending and a refusal to raise taxes. This debt contributed to inflation.

Lecture 57

Multiple Choice Questions

** = correct answer

1. Why is the quality of life deteriorating for many Americans?
 - a) ****Policy of cutting taxes****
 - b) Corruption in upper political offices
 - c) Increasing health care costs
 - d) Lack of well-educated teachers
2. Why has America's share of the world GDP continually decreased since 1945?
 - a) Horizontal and Vertical integrations
 - b) The GDP of the world has decreased
 - c) ****Foreign competition with better and cheaper goods****
 - d) Domestic rivalries and price slashing, monopolies
3. How does inflation hurt the economy?
 - a) Prices go up
 - b) Money doesn't go as far and people go without
 - c) Demand decreases and production slows
 - d) ****All of the above****
4. What was the cause of the Oil Embargo in 1973?
 - a) ****America's support for Israel in a war against Arabic nations****
 - b) America's support for Arabic nations against Israel
 - c) America's brutal attack during the first Gulf War
 - d) Cold war tensions
5. What is characteristic of "stagflation"?
 - a) Stagnant economy and rising inflation
 - b) Rising prices
 - c) Higher unemployment
 - d) ****All of the above****
6. Who does inflation hurt the most?
 - a) Middle class
 - b) Military workers
 - c) ****Minimum wage jobs and fixed incomes****
 - d) Stock brokers and investors
7. Which of the following is *not* a cause of inflation?
 - a) ****Lack of regulation****
 - b) Deficit spending
 - c) 2nd Oil Crisis
 - d) Welfare and Social Security
8. Why was the government using deficit spending?
 - a) To try to bring the economy out of a recession
 - b) Providing welfare for the needy
 - c) ****Cold War and Vietnam****
 - d) Kennedy's New Frontier

9. Which of the following added to the problem caused by inflation?
- a) Trade deficit
 - b) Space program
 - c) Aging populations
 - d) ****All of the above****
10. Which of the following did not contribute to the decline in productivity?
- a) Growth of jobs in the service sector
 - b) Old, inefficient factories
 - c) ****Defense spending****
 - d) Longer hours, producing less

11. As productivity declined, it resulted in each of the following except
 - a) Long hours
 - b) Replacement of factories with shopping malls
 - c) Savings of less than 5%
 - d) ****Increase domestic, American goods****
 - e) More service-Oriented jobs than factory jobs
12. How did the Oil Embargo of 1973 affect the American economy?
 - a) ****It caused gas shortages, gas prices to go up, and shrank the size of automobiles that used less gas****
 - b) It resulted in the banning of Saudi Arabian and Israeli imports into the US
 - c) It resulted in the establishment of American petroleum plants that produced home made oil
 - d) It caused an influx of profits in both oil and weaponry industries
 - e) It created a separate trade agreement with Israel for its oil
13. Inflation during 1973-1980 had its origins in which policy of President Lyndon B. Johnson?
 - a) Civil Rights act
 - b) War on Poverty
 - c) ****“Guns and Butter”****
 - d) New Frontier
 - e) New Federalism
14. What were some of the major causes of inflation?
 - a) ****Money supply, deficit spending, industry prices, entitlements****
 - b) Over-production, deficit spending, fixed incomes, more goods
 - c) Prices, more imports, low money supply, low value of the dollar
 - d) More people, entitlements, social security, more demand
 - e) Morey supply, tax cuts, social security, loss of jobs
15. How did inflation affect the lives of the people?
 - a) Allowed for more public programs to help the poor
 - b) Allowed people to purchase more goods
 - c) ****Was good as long as wages kept up with the prices of goods**
 - d) Reasserted fears that Communists brought inflation down on Americans
 - e) Resulted in the fears of profits in businesses
16. Compared to the economy of the past (Pree-1977), how is the economy of today (1977-present) different?
 - a) There is no difference because Laissez Faire is still the current policy
 - b) Every person today has an equal share of the GDP and there is a better healthcare plan
 - c) There are more factories established to produce goods that are in better quality
 - d) ****The economy today is no better because the unequal distribution of the GDP does not solve the issue of poverty and the US imports more than it exports**
 - e) Agriculture makes up the majority of the US’s profits
17. How was OPEC formation in 1973 important for the oil crisis?
 - a) It made the transportation of oil easier for countries with little oil resources
 - b) ****It set oil prices in oil-filled countries (i.e. the Arab nations, Mexico, and Venezuela) to avoid further inflation**
 - c) It raised awareness of the harmful effects of oil spills

- d) IT opened up new avenues for businesses
 - e) It gave the US more control of the oil industry
18. What are some of the positive effects on society as a result of today's economy?
- a) People learned to spend money wisely
 - b) New inventions began flooding the U.S. market
 - c) **People were given the chance to move up in society and have increases in wages
 - d) More shopping malls were created over factories
 - e) Spending of money mostly focused on the defense industry
19. Productivity came about in the 1990s as a result of the technology boom. How was this trend in the economy a change from the old economy before the 20th century?
- a) **People began saving less, depending on credit, and working at service related jobs rather than heavy labor jobs
 - b) People worked for 10 hours on a seven-day basis
 - c) People went to work at all jobs regardless of gender
 - d) People had a higher expectancy of life and thus could work at jobs longer
 - e) The deficit dropped to zero as a result of careful spending
20. By not building more industries and plants, the money that would have been used to fund the construction was instead used to what?
- a) New Great Society programs
 - b) **Building of industries in foreign countries
 - c) Buying of more weapons to defend against the Communists
 - d) Bribes for Arab countries to get cheaper oil
 - e) Investments in new trade deals with other nations