Chicago School Activity Answer Key

Directions: Evaluate each statement. Circle the one that is consistent with the Chicago School of Economics.

1. According to Gary Becker, what was the Chicago School of Economics' contribution to economic science?

- Introduced the notion of aggregate demand as the sum consumption, investment, government spending and exports less imports, drawing special attention to government spending and taxes.

- *Advocated for letting individuals independently allocate their scarce resources with limited government influence.*

2. How was the Chicago School in direct conflict with the Keynesian school of economic thought?

- *Prices are the best allocators of resources, not government policy or regulation.*

- Through active fiscal policy, government can smooth out recessions and address problems associated with rapid inflation.

3. According to the Chicago School economists, what should government's role in the economy be?

- Government should lower taxes to increase consumption and create job programs during recessions to encourage investments when the economy is in a slump.

- *The central bank should have a steady, predictable growth policy with respect to growth in the money supply.*

4. According to Milton Friedman and Friedrich Hayek, who is primarily responsible for economic prosperity?

- *Responsible individuals who freely buy, sell, and derive income from their privately-owned property, labor, and ideas with a limited government that serves to protect their property rights, enforce laws, and provide a few public goods.*

- Government officials and policymakers who design policies and programs funded through taxpayer dollars and national debt.

5. Which policy stance is most consistent with the Chicago School?

- *Intervention in the economy through fiscal or monetary policy distorts markets and leads to unwise investments and consumption.*

- Government officials and policymakers can smooth out economic fluctuations and can effective address high unemployment and rapid inflation through their policy and regulatory choices.