

## Review Sheet for Exam 1 and the non-graded laboratory #2A.

This review sheet is intended to cover everything that could be on the exam. However, it is possible that I may have inadvertently overlooked something. You are still responsible for everything in the chapters covered except anything that I explicitly say you are not responsible for. Therefore, if I left something off of this sheet, it can still be on the exam. There will be no multiple-choice questions. Most of the questions will be like the ones on the homework assignments, and possibly a few definition questions. I am more likely to ask questions that make you use definitions rather than have you recite them.

The optional review session for this test will be Tuesday 9/16 at a time yet to be announced.

Chapter 1: What is macroeconomics? What are the goals of macroeconomic policy? Do not worry about the circular flow. Know what the terms inflation, galloping inflation, hyperinflation, deflation, disinflation, frictional unemployment, structural unemployment, cyclical unemployment, balance of payments, budget deficit, and budget surplus mean. Understand how the Lorenz Curve and the Gini coefficient are derived. Understand their meanings and their limitations.

Chapter 2: Much of this chapter will have questions that will be answered on spreadsheets on the computer. What are primary and secondary data? What do the terms time series data, cross-sectional data, panel data, low-frequency data, high-frequency data, and real-time data mean? If I gave you a variable, be able to tell me which type of data it is. What are stocks vs. flows? Be able to calculate a Lapeyres price index, and Paasche price index. Know their limitations. Know how we measure growth rates and convert them from monthly or quarterly to annual rates. Know what the first order difference and second order difference time series are. Understand the different types of trends. Know which form of the graphs on pages 36 and 37 a variable will take for its trend. For the sections on adjusting for seasonality and cyclical, you may have to do an adjustment for seasonality as we did in lab #2. Note that the moving average should be an average of two moving averages so that it is centered correctly. This is not how Ken Townsend does it on the videos. As for the book's description of these sections, you are not responsible for the mathematics it gives, but you are responsible for understanding why we make those calculations on the spreadsheet. Ignore section 3.

Chapter 3: What are the advantages of centralized and decentralized data systems? Which does the USA have? Do not worry about the history of the accounts. You should know who creates that data and how often it is published. For NIPAs, know how to interpret information in a table like Table 3.1. Understand why the tables include those particular items and why the left-hand side should equal the right-hand side. Ignore page 70. For the I-O tables, only worry about the table on page 76 and know how to read it. Page 75 will be helpful. Know what the numbers in the IIPs mean. Ignore the FFAs. For the BPAs (sometimes incorrectly referred to BOPs), know what negative and positive numbers mean. What is meant by current account, capital account, merchandise account, surplus, and deficit. Why should the capital and current accounts add to zero? What are labor force participation rate, employment levels, and unemployment rates? How are they calculated? How are the CPI and PPI calculated? (That was lab #1.) Ignore IPIs. Know in

general what M1, M2, M3, and L are. Note that the larger ones include the smaller ones. Why are they important? Know what the discount rate, federal funds rate, and prime rate are. Know what the spot and forward exchange rates are. Be able to use them to determine if it is expected that a currency will appreciate or depreciate. Ignore pages 97 - 100.

Chapter 4, Part I: Know how to calculate nominal GDP, real GDP, real GDP as a percentage of the base year, and real GDP per capita. If you were to calculate them on the computer given data like in lab #1, you would use the "sumproduct" function for the first three and then divide by the population for the fourth one. Know what is and what isn't part of GDP. Note that investment is not buying stocks and bonds. Know how to calculate GDP, GNP, NNP, NI, PI, and PDI. What do each of them measure? What is the capacity utilization rate?

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Wilf Csaplár Jr.                      Economics 350                      Laboratory #2A                      To be covered on 9/15

This is a non-graded laboratory assignment that will be gone over the same class we go over assignment #2. The purpose of this assignment is to give you sample questions for the material we covered after you handed in laboratory #2, and will be on the exam.

1) (30 points) Using the data from laboratory #1, calculate real GDP in each year given 1997 as your base year.

2) (10 points each) For each event below, determine if it is part of GDP. If it is, then state which component of GDP. If it is not part of GDP, then explain why it is not.

- A) You sell \$10,000 worth of stock.
- B) You use \$5000 to buy new books for this semester.
- C) You use \$3000 to buy a book from Germany for your German class.
- D) You use \$2000 to buy used books for this semester.

2) (15 points each) For each item below, explain whether GDP, GNP, NNP, NI, PI or PDI is the best for measuring that variable. Explain your logic.

- A) The welfare of the country as a whole.
- B) The welfare of the firms of the country.