

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 apply definitions rather than have you recite them.

I plan to hold the optional review session for this test on Tuesday 11/4 at 7:00PM in the lab room. I will inform you about the room, once I succeed in reserving it.

Chapter 7: What are the four phases of the business cycle? Be able to explain Kitchin, Kuznet, and Kondratieff, cycles. Ignore Juglar cycles because they are never really explained. What are the six characteristics that business cycles have? What are the four ways in which the postwar cycles differed from those before WWII? Why have the cycles changed? What are the counter-cyclical policies and how do they stabilize the economy? How would the discretionary policies affect the economy if they were implemented? Which policy is the only one implemented on a regular basis in the past few decades? Understand Schumpeter's theory of the business cycle. What were the overinvestment theories? What were the under-consumption theories? How can Clark's acceleration theory combined with Hick's theory explain the business cycle? Section IIIC is too tough to understand without a lot more work, so ignore it.

Chapter 8: What are static, dynamic, econometric, deterministic, stochastic, and simultaneous models? Why does simultaneity cause a problem for data analysis? Why is non-linearity of parameters and variables a problem for data analysis? What are stochastic, deterministic, behavioral, identity, technological, and institutional equations? What are exogenous, endogenous, and lagged endogenous variables? Be able to calculate the short-run and long-run multipliers for a set of equations such as those on page 283. Be able to calculate and plot the baseline scenario and other modified scenarios. Note that it is possible for the scenarios to oscillate around the equilibrium and it is possible that the system is unstable. Ignore Section V because the book says it can be skipped and I feel it is too hard for this course. Since Section VI is hard to understand without Section V, skip it too.

---

Wilf Csaplar Jr.

Economics 350

Laboratory #7A

To be covered on 11/3

This is a non-graded laboratory assignment that will be covered during the same class in which we go over assignment #7. The purpose of this assignment is to give you sample questions for the material we covered after you handed in laboratory #7, and will be on the exam.

- 1) (25 points) Explain the overinvestment theory of business cycles. What is a weakness of it?
- 2) (25 points) Explain the Schumpeter's innovation theory of business cycles. What is a weakness of it?
- 3) (25 points) Suppose that you determined the final equation for calculating GDP is given by:  $Y = 9000 - 0.5Y_{t-1}$ . If last year's GDP is 6256, then forecast GDP the next 8 years. Plot the points and explain why they create the pattern you drew.
- 4) (15 points) When we want to run a simulation, which variables (exogenous, endogenous, and lagged endogenous) can be on the right-hand side of the equation that we are going to estimate? Why did you choose them but not the others?
- 5) (10 points) Why is simultaneity a problem for econometric estimations?