

Wilfrid W. Csaplar Jr. Principles of Macroeconomics Review Sheet for the Two Parts of the Final

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 the first part of the final will be Sunday 12/12, at a time and in a room to be announced. The “review session” for the second part will be in class on 12/8.

Review Sheet for the two parts of the final.

The two parts of the final will be in the same order as last year, which is the opposite order of the first two semesters. The second half of the final will be just like the second half of the final for the last semester. It will be the same except you will have different numbers. If I were you, I would use a Keynesian, but not extreme Keynesian, approach to solve the problem because it is easier to solve problems in a Keynesian world. (That does not mean that Keynes is right, just easier to deal with.) Chapter 17, up to page 405 will be helpful even though we will not cover it directly. For the second half of the final, you will probably want to practice showing policy on the SRAS/LRAS/AD diagram, 45° diagram, and the MS/MD diagram **at the same time**. Make sure that GDP goes the same direction in the two diagrams with it on the X-axis.

The first part of the final will be held the last day of class. It will cover the material that is not directly covered by the second half of the final. For example, I will not ask you to show an increase in the money supply on the LRAS/SRAS/AD diagram. Anything on any review sheet that is not explicitly covered in part 2 of the final is fair game.

When I write the final, I look to see what I did not ask about, and what were the major topics. I write questions about those topics. (Obviously, opportunity costs and supply/demand will be on the first half of the final.) I try to get the questions evenly distributed from all the tests. However, the second half of the final covers much of the material for tests 3 and 4 with some of test 2. Therefore, most of the material for the first half of the final will be on material from tests 1 and 2, with some questions from the other material covered.

Chapter 16: What determines the demand for money? What are transaction, precautionary, and asset demand for money? Be able to move the MS and MD curves. Ignore the S/D for bonds. Illustrate the effects of monetary policy on LRAS/SRAS/AD diagram. Understand why $MV=PY$. Understand why monetarists do not like monetary policy. (This is the lags from chapter 13 again, but they are of different lengths than they were there.) Why can't the Fed choose to set both interest rates and the money supply?

Non-graded assignment based upon chapter 16.

- 1) (25 points) Illustrate an increase in the money supply on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn.
- 2) (25 points each) Illustrate the following events on the supply and demand for money. Explain why the curve(s) moved as drawn.
 - A) The GDP increases.
 - B) The money supply increases.
- 3) (25 points) Use the supply and demand for money to explain why no central bank can control both interest rates and the money supply. (Of interest, if the central bank wants to control the exchange rate, then it cannot control either the interest rates or the money supply.)