

This review sheet is intended to cover everything that could be on the exam; however, it is possible that I will have accidentally left something off. 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 in the homework assignments, and possibly a few definition questions, but I am more likely to ask questions that make you use the definitions rather than recite them.

The review session will be Tuesday, 11/09, at 7:00, in the normal room.

Supplementary text: Know what is meant by forecasting and how it is done. What determines whether a variable is a good or weak indicator? What would make it leading, lagging, or coincident? Why are moving averages often important? What does MCD mean? What are the advantages and disadvantages of diffusion indices and composite indices. I will not ask you to define any of the variables, but it would be helpful to read Chapter 5 because it defines many of them.

Chapter 15: How does the Fed make decisions? How do Monetarists differ from Keynesians? How are they seen on the IS/LM diagram? As for the different eras, know what was the general policies and how those policies affected the economy. Why did they have those effects?

Laboratories: Be able to run a regression in Excel. Know how to interpret the information presented and tell if your regressions are strong or weak. Know how to test for multi-colinearity, heteroscedasticity, and autocorrelation. Know the methods of correcting for those problems. For multi-colinearity, usually you get rid of the variable with the weakest theory. For heteroscedasticity, verify that you are not omitting an important variable, then run a regression with different software. (You do not need to know how to run it.) For autocorrelation, verify you are not missing a variable and then check to see if your equation should take a different format, like a quadratic or log-linear equation.

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This is the non-graded assignment #7A that will be gone over with assignment #7.

1) (10 points) Given the current economic situation, would the economy be more likely to be in the Keynesian or Monetarist part of the IS/LM diagram? Explain your logic.

2) (30 points each) For each of the time frames below, draw the IS/LM and SRAS/LRAS/AD diagram which represents the beginning of the time frame. Then illustrate government policy. Explain how your diagrams show the initial situation and why the curves moved as drawn.

- A) 1929 - 1931
- B) 1981 - 1986
- C) 1992 - 1996