

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, 12/07, at 7:00, in the normal room.

Chapter 16: What are the assumptions of the rational expectations school of thought? Why are they called neo-classical? What are its conclusions? How do they reach those conclusions? How do Keynesians handle expectations? How do they explain the business cycle? What are some of the critical comments people have made of the school? What is supply-side economics? What would a true supply-side economist propose for economic policy?

Chapter 17: What causes the wages and prices to be sticky in the neo-Keynesian model? That includes, contracts, markup pricing, menu costs and the efficiency wage (all four reasons for it). Why might there be credit rationing and how would it affect aggregate demand? What are the policy implications of the neo-Keynesian model?

Laboratories: Be able to forecast future sales using the method devised in assignments #8 and #9. Understand why those calculations should give us the desired results.

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This is the non-graded assignment #9A that will be gone over with assignment #9.

1) (15 points each) For each of the following, explain how it can lead to sticky wages and prices.

- A) Markup pricing
- B) Menu costs

2) (20 points) It is generally well accepted that the efficiency wage models hold for microeconomics. However, they may or may not apply to macroeconomics. Explain the *minimizing turnover* reason for the efficiency wage. Do you think that applies to macroeconomics? Why or why not?

3) (20 points) Explain the type of fiscal policy a supply side economist would do. Why would they do that?

4) (30 points) Under what circumstances do you think the neo-Keynesian model will be accurate? Explain the factors which you feel are important, like unemployment rate or any other variable. Also, explain why that factor is important.