Wilfrid W. Csaplar Jr. Business Cycles and Forecasting Review Sheet for Exam 4 and the Final Exam

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. I will probably ask one of the questions from the book at the end of the chapters.

The review session will be Tuesday, 12/08, at 7:30, in the computer room (I hope).

For the laboratories, be able to adjust data for seasonality, estimate sales for a period given the annual sales, and be able to forecast sales into the future. These require calculating *centered moving average, preliminary seasonal indicator, average seasonal indicator, revised seasonal factor, total seasonal factor, trend* (using a regression), and *normal*. In that order.

Chapter 14: What is a central bank? What does it do? Know the basics of what goes on the assets or liabilities and net worth sides of the balance sheet for a bank. How does the money multiplier process work? Warning, if you just write *multiplier*, then you are referring to the autonomous expenditure multiplier, a.k.a., the government spending multiplier, a.k.a., the investment multiplier. If you mean the money multiplier, you must write the word "money." Understand the formula for the money multiplier. Do not worry about the Fed's balance sheet. Who are the Board of Governors of the Federal Reserve System, and the FOMC? How do the Fed's tools (instruments) affect the money supply, monetary base, money multiplier, and the intermediate targets? The table on page 537 should help here. Be able to illustrate that on the IS/LM/FE diagram. What are the lags in monetary policy and what are the possible implications of it? Should we use rules or discretion for monetary policy? What are the advantages of each? Ignore the game theory. How can the central bank get credibility? Why is an independent central bank important?

Chapter 15 until page 580: How do we calculate the government's budget deficit? What is the difference between a deficit and a surplus? What is the difference between a deficit and a debt? What are the primary deficit and the full employment budget deficit? What are the automatic stabilizers and how do they work? How are they calculated and why are they important? What is government capital? What is the difference between the average tax rate and the marginal tax rate? Which matters the most? What are distortions and how do taxes cause them?

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

1) (25 points) Suppose that the following equations describe the economy: G = 250, TR = 300 - 0.2Y, INT = 100, and T = 0.4Y. If GDP is 1000 and the full employment level of GDP is 1200, then what are the budget deficit/surplus, the primary budget deficit/surplus, and the full employment deficit/surplus? Show all work.
B) (15 points) Is this government doing good fiscal policy? Explain your logic.

2) (15 points) Given the side-effects of taxes, would a head tax (everybody pays the same amount for their head) or an income tax be a better tax? Only examine them from the views of economic incentives, not from an equity point of view.

3) (25 points) What are the automatic stabilizers? Why are they called that? How do they work?

4) (20 points) Explain the difference between deficit and debt?

Review sheet for the final exam.

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. I try to get the questions evenly distributed from all the tests. However, the end of Chapter 15 is not on any test, so it will definitely be on the final with a slightly disproportionately large emphasis.

The Rest of Chapter 15: How do governments finance their deficits? How fast is the growth rate of the debt-GDP ratio? Is the debt a burden for future generations? Understand Ricardian Equivalence. What is seignorage? Why does it occur and what does it cause? Ignore real seignorage.

1) (25 points) Explain why a high interest rate causes the debt-GDP ratio to grow. Does the equation for the growth rate of the debt-GDP ratio have the growth rate of real or nominal GDP in it? Why?

2) (25 points) Explain seignorage. Why might it be a good idea for some developing countries?

3) (25 points) Many economists argue that the debt is not a burden for future generations. Why is that? Do you agree? Why or why not?

4) (25 points) What is Ricardian Equivalence? Why might it apply even if the current generation does not pay the debt?