Wilfrid W. Csaplar Jr. Principles of Macroeconomics Review Sheet for Exam 2

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 Wednesday, 10/4 or Thursday 10/5, at a time and place to be announced.

Chapter 5: What are the following terms and why are they an argument for government intervention in markets? Negative externalities, positive externalities, public goods, merit goods, demerit goods, and inequitable distribution of income. For each of them, explain how the government can partially solve the problems. Why are free riders a problem? What are marginal tax rate, average tax rate, and tax bracket? How can we tell if a tax is progressive, regressive, or proportional? Do not worry about capital gains, capital loss, double taxation, retained earnings, or corporate taxes. Know what tax incidence is, and how to estimate it from a graph. Also, who really pays the firm's share of the tax? Do not worry about how much government revenue comes from each source, or how it is spent.

Chapter 6: What is the tax base? How can increasing a tax result in less revenue? What are sales, excise, ad valorem, specific (unit) taxes? What is the Laffer Curve? What are Medicare and Social Security? What are their effects on the economy? What is the problem with Social Security? What are some of the proposals for solving the problem? I am most likely to give you a proposal for a solution and ask you how it would work, and whether or not you would implement my proposal.

Chapter 7: What are, and how do we calculate, the unemployment rate, labor force participation rate, and inflation rate? What are stocks and flows? How do they relate to unemployment rates? Know how to classify people by the reason they are unemployed, i.e., laid off, job leaver, etc. Know how to tell who is in which category of unemployment, i.e., frictional, structural, seasonal, and cyclical. What is the natural rate of unemployment and full employment? How do discouraged workers complicate the unemployment picture? What are the other costs of unemployment besides lowered production? How do we calculate CPI, PPI, and GDP deflator? Why does it matter if inflation is anticipated or unanticipated? What are the costs of unanticipated and anticipated inflation? (I added shoe leather costs.) Note that if inflation is expected to be 10% and it ends up being 7%, we had unexpected deflation of 3% and that hurts borrowers. Know what an expansion (a.k.a. boom), contraction, recession, depression, trough, and peak are. What is a leading indicator?

This is the non-graded assignment #4A that will be reviewed with assignment #4.

1) (10 points each) For each of these events, determine what will happen to the unemployment rate and the labor force participation rate. Explain your logic.
A) Tom graduates without a job, but you are looking. (I hope this does not happen to you.)
B) Susan graduates and goes to graduate school.
C) John quits his job to be a stay-at-home dad.
D) Sam is unemployed so long he quits looking for a job.
E) Mary starts working.

2) (15 points) Why does a fully anticipated inflation of 20% cause almost no costs on society?

3) (20 points) What are two problems caused by a fully anticipated inflation of 20%?

4) (15 points) If people expected 5% inflation and it turned out to be 7%, who is hurt by this? State two groups and explain your logic.