

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 at a time to be determined in class, most likely Thursday, October 1<sup>st</sup>.

Chapter 5: What are **negative externalities** and **positive externalities**? How are they seen on the graph? What is the best way to offset them? Show that on the supply and demand diagram. Know the economic reasons for **providing a legal system, promoting competition, providing public goods, and income redistribution**. Know what **government sponsored** and **government deterred goods** are. What is the difference between **voting** and **spending**?

Chapter 6: How do we calculate **marginal tax rate, average tax rate, and total taxes paid**? What is meant by **proportional, progressive, and regressive taxes**? What is the **tax base**? How can increasing a tax result in less revenue? What are **sales, excise, ad valorem, and specific (unit) taxes**? Who pays the tax? What is the **Laffer Curve**? The book actually draws it in Chapter 13. What are **Medicare and Social Security**? (Note that this is in the handouts I gave you which are also posted on my web page.) What are their effects on the economy? What is the problem with Social Security? What are some of the proposals for solving the problem? What are the pluses and minus of using each “solution”? 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, a.k.a., full employment unemployment rate**? How do **discouraged workers** and **underemployment** complicate the unemployment picture? What are the other costs of unemployment besides lowered production? How do we calculate **CPI, PPI, PCE Index and GDP deflator**. I won't ask you to do the calculation, but you may have to describe how it is done. Know how to calculate inflation from those numbers. 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**?

Chapter 8 until Page 181: What do we mean by **product markets** and **factor markets**? Know what is calculated in **GDP** and what is not. That method is the **expenditure method (C+I+G+X)**. Remember that “X” can be negative and that you are likely to get the definition of “I” wrong. Stocks and bonds are not investments. Ignore inventory investment. It is very small and confusing. Why should GDP calculated this way equal the **sum of the incomes and the sum of the value added**? What are some

problems with trying to calculate GDP? What are some of the limitations in our understanding the meaning of different levels? Ignore GDI because they state it is the same as GDP, just calculated differently.

Note that last semester, the exam was later in the semester because of the unusually timed Spring Break. So, some of the material on that exam will not be on your exam.

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Non-graded Homework Assignment #4A to be reviewed with Assignment #4.

- 1) (20 points) Suppose the inflation rate and the unemployment rate both 6.3%. Which would you say was a bigger problem? Explain the problems caused by each being high and why you feel that one problem is bigger than the other.
- 2) (10 points) The unemployment rate is currently near the “normal” level, but the labor force participation rate is still much lower than before the “great recession” of 2008-2009. What does that mean and why did it occur?
- 3) (10 points) What is wrong with the argument, “When there is high inflation, I cannot afford to buy as much, that is why high inflation is bad.”?
- 4) (10 points each) For each of these tell me what happens to the unemployment rate and the labor force participation rate. Explain why it has those effects and which type of unemployment is affected and why you chose that type of unemployment.
  - A) A lifeguard for a nearby outdoor pool was laid off this month.
  - B) A stay-at-home dad decides to look for a job.
  - C) A lot of coal miners have been laid off in West Virginia in the past year.
- 5) (10 points each) For each of these events, determine how much GDP changes. If there is a change, then tell me which part of GDP is changing and why you chose that part. If there is no change, then tell me why there is no change.
  - A) You buy \$500 worth of Ford stock because you think the Volkswagen scandal will help Ford. You pay \$10 in commissions.
  - B) I heard a rumor that Bethany College is thinking about renovating Richardson. Let’s assume the rumor is true even though most rumors around here are wrong. At the time of the renovation, what will happen?
  - C) I pay you \$50 to mow my lawn.