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 determined in class, but probably Tuesday, 9/15, in the computer lab.

Chapter I: What is **forecasting**? Who does forecasting? What is the test of a good forecast?

Chapter II: What are **leading, lagging**, and **coincident indicators**? Understand the economic reason that the variables listed on Page 22 are listed in the categories under which they appear. Why must the variable have **economic significance, statistical adequacy, timing, conformity, smoothness**, and **currency** to be a good indicator?

Chapter III: Why does the analysis require calculating moving averages? What is **the MCD (Months of Cyclical Dominance)** and why is this important? If I gave you Table 3 from Page 38, or Table 4 on Page 40, then you should be able to tell me what the numbers represent and which variables are stronger indicators. Be careful to use the correct column for expansion or contraction. Be able to interpret what is occurring if some variables are expanding and others are not.

Chapters IV and V: These are just definitions. Learn them.

Chapter 8: What do the following terms mean: **aggregate economic activity, expansions, boom, contraction, recession, depression, peak, trough, business cycle, co-movement, recurrent but not periodic**, and **persistent**? Why have business cycles become longer and less severe since World War II? What determines if a variable is **pro-cyclical, counter-cyclical,** or **acyclical**? What are **lagging, leading**, and **coincident variables**? If I gave you a variable, you should be able to determine which type of variable it is and the economic reason for that. If a variable is a good indicator, then why should a variable have consistent timing and send a strong signal with few false signals? Understand why the **SRAS/LRAS/AD diagram** takes its shape and what moves them.

Chapter 9: Be able to manipulate the **IS/LM/FE** diagram and the SRAS/LRAS/AD diagram at the same time. Make sure that GDP changes the same on the two diagrams. Know how to manipulate the **real MS/MD**. This diagram is in real terms; therefore, prices do not affect MD/P, they affect MS/P. Understand why the eight curves in this chapter take their shape. Note that in the long-run, SRAS will move back to equilibrium and that causes prices to change. The price level change causes LM and MS/P to change. Why doesn't a change in the money supply have any long-run effects on GDP (a.k.a., **neutrality of money**)? Be able to derive AD from the IS/LM/FE diagram. It may be easiest to draw SRAS with a slight upward slope.

This is the non-graded Assignment #2A that will be reviewed with Assignment #2.

1A) (40 points) Illustrate an increase in government spending on the SRAS/LRAS/AD diagram, real MS/MD diagram, and the IS/LM/FE diagram. Explain why the curve(s) moved as drawn.
B) (30 points) On the same diagrams, illustrate the long-run effects which move us back to the equilibrium. Explain why the curve(s) moved as drawn.

2) (30 points) Draw a SRAS/LRAS/AD diagram and an IS/LM/FE diagram for when the unemployment rate is 9.7%. Illustrate how the curve(s) will move back to the equilibrium. Explain why the curve(s) moved as drawn and how you can tell the unemployment rate is 9.7%.