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 5th. Last semester, this course was TTh, so some of this material was on Exam #1 and about half of the material on Exam #2 will not be on your exam.

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**? 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** to **menu 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 and any others paying a fixed amount but helps those receiving the money. Know what an **expansion (a.k.a. boom), contraction, recession, depression, trough,** and **peak** are. What is a **leading indicator**?

Non-graded Homework Assignment #4A to be reviewed with Assignment #4.
See the back of the sheet.

1) (20 points) Suppose the price level at the start of the year was 800 and people expected 6% inflation. At the end of the year, the price level was 880. What was the inflation rate? Show all work. Who is helped and who is hurt by this inflation? Explain your logic mentioning at least two groups of people in each category and explaining how they are helped or hurt.

2) (10 points) What is wrong with the argument, "When there is higher inflation rate, people cannot afford to buy as much. That is why high inflation is bad."?

3) (20 points) Our labor force participation rate is about 3 percentage points lower than it was in January of 2008. What are the two reasons it has increased? Which of those says that our unemployment rate is misleading? Explain your logic.

4) (10 points each) For each of the following events, determine what happens to the labor force participation rate and the unemployment rate. Which part of the unemployment rate is affected. Explain your logic for all parts including stating any assumptions you are making.
A) A worker on the car assembly line got laid off in 2008. What happened at that time?
B) John quit his job because he dislikes his boss.
C) Jane as a lifeguard in this area until a couple of weeks ago.
D) Edward decided that his children are now in school, so he no longer wants to be a stay-at-home father. Therefore, he starts looking for a job.
E) Emily decides she has saved up enough money, so she decides to retire early.