

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 3rd.

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.

1) (10 points each) For each of the following, determine what happens to the unemployment rate and the labor force participation rate. Explain your logic including mentioning all assumptions made. Which

type of unemployment is affected? Explain your logic.

A) John quits job because he dislikes his boss.

B) Jane got laid off in 2008 and got her job back in 2009. What happened in 2009?

C) Henry is an unemployed coal miner who quits looking for a job because he has been unemployed for so long.

D) Cathy was a lifeguard at a beach until a few weeks ago. What happened then?

2) (10 points) What number for the unemployment rate is considered to be full employment in the USA? Why isn't it 0%?

3) (15 points) Suppose that at the start of the year, the CPI was 800 and we expected 10% inflation. At the end of the year the CPI was 960. What was the actual inflation rate? Show all calculations. Who was hurt by the inflation? Mention at least two groups of people and explain your logic as to how they are hurt.

4) (15 points) What is wrong with the following logic? "High inflation means prices are rising quickly. Therefore, I cannot afford to buy as much as I could before. That is why high inflation is bad."

5) (10 points) All statistics have problems with their definition which result in their not being as useful as we would like it to be. The CPI and inflation have several. Explain how one of them makes them less useful.

6) (10 points) Explain what *shoe leather costs* are.