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, September 30th.

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) (20 points) Suppose a country has 1000 people who are 16 or older. 540 have jobs. 60 are unemployed but looking for a job. 50 are unemployed and quit looking for a job. 150 are stay-at-home parents, and the rest are retired. What are the labor force participation rate and unemployment rate?

Show all work and briefly explain what you did.

2) (20 points) Suppose that at the start of the year, the price level was 800 and people expected 10% inflation. At the end of the year, the price level was 840. What was the inflation rate? Show all work. Who was hurt by the inflation? Cite two groups hurt by the inflation and explain how they were hurt.

3) (10 points) What is wrong with the following commonly heard statement? "When prices go up, we cannot afford to buy as much. That is why high inflation is bad."

4) (10 points each) For each of the following events, determine what happens to the unemployment rate, the labor force participation rate, and which category of unemployment is affected. Explain your logic.
A) John quits his job because he dislikes his boss.
B) Cathy was a lifeguard at an outdoor pool until she got laid off last month.
C) Ellen worked at a restaurant until March of 2020. What happened in March of 2020?
D) Dave has been unemployed for so long, he has quit looking for a job.
E) Tommy was a stay-at-home dad, but now that his children are older, he has decided to look for a job.