

This review sheet is intended to cover everything that could be on the exam; however, it is possible that I may have overlooked something. 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 workbook.

The optional review session for this test will be Thursday 03/13 at 7:00 P.M. in the normal room.

Since a fair number of students will be needing to miss the test on Friday and will be missing Thursday's classes as well. I will run a make-up test on Wednesday evening. Unless those students have a conflict, it will be at 8:00 P.M. I expect it will be in the normal room. (I will confirm this later.)

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? Be able 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, etc. Note that we normally do not classify people as frictional until they have been unemployed for a long time. What is the natural rate of unemployment? What are the other costs of unemployment besides lowered production? How do we calculate CPI, PPI, and GDP deflator? Why are they biased upwards? Why does it matter if inflation is anticipated or unanticipated? What are the costs of unanticipated and anticipated inflation? I added shoe-leather cost. 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: What is the simple circular flow? 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 you are likely to get the definition of I wrong. Stocks and bonds are not investments. Why should that equal the sum of the incomes? Do not worry about the value added method of calculating GDP. What are some problems with trying to calculate GDP? Ignore GDI because they state it is the same as GDP, just calculated differently. Know how to get from GDP to NDP, NI, PI, and DPI. Note that if you know what those terms are trying to measure, you ought to be able to figure out what is added and what is subtracted. What is the difference between real and nominal? How do we compare GDP across countries?

Chapter 9: What is economic growth? What is the problem of using that as a measure of welfare? What causes GDP per capita to grow? What are the problems with growth? What is labor productivity and what changes it? Why is saving so important to growth? What are the advantages and disadvantages of patents? Why do open economies grow faster? How does population growth affect development? The four keys to development on pages 212 and 213 will help you to understand parts of the chapter.

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Nongraded assignment #4A

To be reviewed on 03/12 when assignment #4 is handed back.

- 1) (20 points) Suppose that we are trying to find out how well-off the country is as a whole. Would you use GDP, NDP, NI, PI, or DPI? Why would you say that? (For questions like this, it is best to compare the statistic you chose to the next larger statistic and the next smaller statistic.)
- 2) (20 points) In this area of the country, it is clear what the disadvantages of "creative destruction" are. What are the advantages of it?
- 3) (20 points) Some of the drug companies are pushing to get the patents on drugs to last longer. Also, companies like Disney succeeded in getting the government to extend the length of time that copyrights on intellectual rights for books and movies last. (That was taken to court, and last semester the supreme court upheld Congress' right to change it, but refused to comment on if it was a good idea.) Do you think that the government should extend patents? Why or why not? I just want you to concentrate on patents and ignore intellectual property.
- 4) (20 points) Why is saving so important to economic growth? Make sure you explain what causes economic growth and how savings helps that.
- 5) (20 points) What is labor productivity? How can it be improved?