Wilfrid W. Csaplar Jr. Intermediate Macroeconomics Review Sheet for Exam 1

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 Tuesday, 7:00, in the normal room.

Chapter 1: What do we mean by real GDP, nominal GDP, GNP, price index, CPI, PPI, Implicit GDP Deflator, inflation, employment, unemployment, and trade balance?

Chapter 2: What is the difference between stock and flow? What is the difference between income and wealth? What is human capital? What is included in GDP and what is not? What are the limitations of using it? What are GNP, NNP, NI, PI, and DPI? How are they calculated? What do they measure? How do we calculate real GDP from nominal and two price indices? Understand the basic circular flow, but you will not need to recreate the fancy one. What is the unemployment rate? What is full employment? What are problems with measuring employment and unemployment? What is the production function? What causes movements in it? The only part of the appendix that is important now is equations A2-8 through A2-10. However, eventually, all will be useful.

Chapter 3: What did the classical economists assume? Be able to show how events will affect the following five diagrams in the classical school: N_S/N_D, production function, S/I, AS/AD, and the graph of nominal wages versus price level. Note that the book is inconsistent with labels on N_S/N_D. The vertical axis is real wage = W/P. Also, ignore the graph that looks like AD but with the axes reversed. Note that moving the production function will move N_D, which will change W/P on the W vs. P diagram and will change the N on production function. The change of either the production function or the level of N will move AS. AD is determined by Mv=PY. S is determined by tastes and GDP. I is moved by GDP and changes in depreciation. Know how real and nominal shocks affect the graphs.

Chapter 4: What assumptions did Keynes make? How does that affect the AS curve? The line the book calls the "Keynesian AD" will be called the "desire expenditures" or "expected expenditures" line to avoid confusion with the other AD diagram. The diagram will either be called, "the 45° diagram," "the Keynesian Cross," or "desired expenditures" diagram. Be able to manipulate it. Note that the slope is the change in desired expenditures divided by change in income. So things like the MPC, MPS, marginal tax rates, or anything that changes how Y affects any variable like C, I, or M. Note M is imports not money as it was in chapter 3. Be able to derive the multiplier. Note that outflows reduce it. Automatic inflows, like an increase in I caused by an increase in Y, will increase the multiplier while other injections like government spending start the multiplier process without changing its value. Be able to explain why the Keynesian AD curve slopes down. Note that the reason is not the same as why demand slopes down. Be able to explain why the two arguments are different. Be able to explain the Keynesian-Classical AS curve. Be able to manipulate that diagram.

This is the non-graded assignment #2A that will be gone over with assignment #2.

1) (20 points) Illustrate an increase in the GDP of Canada on the Keynesian Cross (45° diagram). Explain why the line moved as drawn.

2) (20 points) Illustrate an increase in the marginal propensity to import on the Keynesian Cross (45° diagram). Explain why the line moved as drawn.

3) (20 points) Draw the Keynsian-Classical AS Why does the curve look as drawn.

4) (15 points) Suppose the government increased its spending by $10,000. If the MPC is 80% and the marginal tax rate is 25%, then how much will GDP grow? Explain how you got that and show all calculations.

5) (25 points) Which would have a larger multiplier, an open or a closed economy? Why? Which would have a larger multiplier, a country with a high tax rate or a low tax rate? Why?