Wilfrid W. Csaplar Jr. Intermediate Macroeconomics Review Sheet for Exam 4 and Final

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 book at the end of the chapters.

The review session will be on Tuesday, 4/29 at 7:00 PM. The room number will be confirmed later.

Chapter 10: What are the balance of payments, current account, and capital account? Why should they normally add to zero? How can we tell if a currency is appreciating, depreciating, revaluing, or devaluing? What is purchasing-power parity (PPP)? Why should it hold? Why doesn't it hold? How does it affect the supply and demand for currency on the foreign exchange market? How do interest rates affect the supply and demand for currency on the foreign exchange market? Why are imports a function of GDP? How does that affect the IS curve, the Keynesian cross diagram, and the autonomous expenditure multiplier? Do not worry about figures 10-9 and 10-12 because they build on things we already ignored. Why does the BP curve slope up? What happens if we are off of it? What moves it? Ignore figure 10-13 because it confuses the issue and because panel C is clearly wrong. How do exchange rate changes affect the IS/LM/BP diagram? Be able to show monetary and fiscal policy on the IS/LM/BP diagram. For this whole course, we are assuming that there is a flexible exchange rate. (Fixed exchange rates are in Economics 365.)

Chapter 11: To avoid confusion with the previous chapter, we will write MS or MD for money rather than M. What are the three motives for holding money? Which depend upon interest rates and which depend upon GDP? What does the combined demand for money curve look like? What is the money multiplier? Note that unless you see the word "money" in front of "multiplier," I am referring to the autonomous expenditure multiplier. If you are referring to the money multiplier, you **must** include the word "money" or you are talking about the wrong thing. What is the quantity theory of money? How does that apply to the AD curve? Why might it hold? Why might it not hold? Be able to explain Friedman's equation $M_d = f(Y_p, w, r_b, r_e, p, \Delta p^e, u)$. I added the superscript on Δp^e because it is expected price changes. Why can't the central bank control the money supply accurately?

The final is in two parts. The first part is on the last day of classes. It will be similar to the first part of 162's final last semester. You can get it on the web. I will also provide information about the current account and I would expect some more detail than they were expected to give. Obviously, the numbers will not be the same as they had. I would use a Keynesian, but not extreme Keynesian, approach to solve it because it is easier to solve problems in a Keynesian world. (That does not mean that Keynes was right.) The second half of the final will be during the finals exam slot and will be shorter than two hours because of first half. It will be comprehensive, but will emphasize things not covered in the first half of the final. For example, it will look at what determines consumption and the MPC, and what the different schools of thought believe.

Non-graded assignment #8A To be reviewed with assignment #8

1) (15 points) Why is the money multiplier greater than one?

2) (25 points) M1 has become unstable in the past three decades, but M2 has remained relatively stable. What can explain this?

3) (25 points) Why does the demand for money depend upon r_b and p? Why do they have those effects on MD?

4A) (20 points) Assume the quantity theory of money is correct. How does that affect the shape of the SRAS/LRAS/AD diagram? Why does it have that effect?
4B) (15 points) Given part A, what would happen to the SRAS/LRAS/AD diagram if government spending increased? Why would that occur?