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 Wednesday, 3/23, at 7:30, in the normal room (I hope).

You will be given a pair of equations and asked to explain one of them. The most important equations are listed at the end of each chapter. Understand why they take those forms.

Chapter 5: What is the current account (CA)? How is it calculated? What are the capital account (KA), financial account (FA) and the capital financial account (KFA)? Why should the CA + KFA = 0? How do NFP and unilateral transfers enter the equation? Note that the summary on page 182 does a great job of showing how all the terms relate to each other. Why does $S^d = I^d + CA$ or more easily put $S^d + KFA = I^d$? Be able to manipulate the S/I diagram for both small and large open economies. Be able to show what moves the curves, and know how to find a CA deficit or a KFA deficit. Know how government policy and shocks affect the diagram. How are the twin deficits related?

Chapter 6: What causes economic growth? How do we measure A? For the Solow Growth Model, be able to draw the per-worker production function. Understand what moves it. How do we find k_G (the "golden rule" capital-labor ratio), k_{max} (the maximum capital-labor ratio), and k^* (the optimal capital-labor ratio)? Why is the latter at the point where sf(k) crosses (n+d)k? What moves those two lines? Why does the economy automatically move towards k^* and why is that not necessarily at k_G? Understand the economic reasons for the changes in k that the diagram predicts. For endogenous growth theory, understand why they assume Y=AK and why $\Delta Y/Y = sA - d$. What government polices affect "s," "A," and "d"? Why do they have those effects? (They can be seen on pages 238 - 240.) For this chapter, it is crucial that you remember the differences between small and CAPITAL letters. Remember that small letters are rates, ratios, or fractions. Do NOT use them interchangeably with capital letters.

Chapter 7: What are the three functions of money? What are in M1, M2, and M3? Why do we have more than one definition of money? How does the central bank affect the money supply? What determines which type of assets you want? What determines the demand for money? The summary on page 257 should be a big help. What is the quantity theory of money? Why should the velocity of money be constant? Why hasn't M1's velocity been constant? Why is the inflation rate dependent upon the growth of money and the growth of GDP?

This is the non-graded assignment #6A that will be gone over with assignment #6.

1) (15 points) Explain $\Delta Y/Y = sA - d$.

2) (15 points) Explain $M^d = P*L(Y,r = \pi^e)$.

3) (10 points each) For each event, determine what happens to M1, M2, and M3. Explain your logic.
A) You move $120,000 from one CD to four equal CDs.
B) You pay your $30,000 tuition bill with a check.
C) You pay your $4,000 book bill with a credit card.

3) (10 points each) How do the following affect the demand for money? Explain your logic.
A) The real interest rate increases.
B) The nominal interest rate on bank accounts increases.
C) Stocks become more risky.
D) Credit cards become more accepted.