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 Monday or Tuesday, 2/26 or 2/27, at a time to be determined in class.

Chapter 6: What is the tax base? How can increasing a tax result in less revenue? What are sales, excise, ad valorem, specific (unit) taxes? What is the Laffer Curve? 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? 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 and full employment? How do discouraged workers complicate the unemployment picture? What are the other costs of unemployment besides lowered production? How do we calculate CPI, PPI, and GDP deflator? Why does it matter if inflation is anticipated or unanticipated? What are the costs of unanticipated and anticipated inflation? (I added shoe leather 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. 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 that you are likely to get the definition of "I" wrong. **Stocks and bonds are not investments.** Ignore inventory investment. It is very small and confusing. Why should the GDP calculated this way equal the sum of the incomes and the sum of the value added? What are some problems with trying to calculate GDP? What are some of the limitations in our understanding the meaning of different levels? 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. Capital consumption allowance is another way to calculate depreciation. What is the difference between real and nominal GDP? Ignore the chain-weighted measure for real GDP. How do we compare GDP across countries?

This is the non-graded assignment #4A that will be reviewed with assignment #4.

1) (10 points each) For each part, determine if it is part of GDP for the USA. If it is, then briefly state which part of GDP and how you reached that conclusion. If it is not, then explain why it is not.
A) Sam receives unemployment benefits of $800.
B) Joan buys a used car for $4000 which cost the dealer $3000.
C) I pay you $50 to rake my yard.
D) You buy $1000 worth of IBM stock and pay the broker $10 in commissions.
E) Sabrina buys a $10,000 Kia which was made in South Korea.

2) (15 points) Which measure would be better to measure how well off the firms in the country are, GDP, NDP, NI, PI, or DPI? Explain your logic. Compare it to the two in the list before and after it in your explanation

3) (20 points) Give two reasons why real GDP per capita may not be a good measure of how well off a country is.

4) (15 points) Which is going to be more closely tied to the unemployment rate, GDP or GNP? Explain your logic.