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 4/8 at a time to be determined, in the normal room (I hope).
You will be given a pair of equations and asked to explain one of them.

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 equilibrium 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"? (Nothing the government does really affects d.) Why do they have those effects? (They can be seen on pages 240 - 242.) 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? (Expected return, risk, and liquidity) What determines the demand for money? (Price level, real income, interest rates, wealth, and the properties of other assets.) The summary on page 260 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) Why should $M^d/P = kY$? What is that implicitly assuming?

2) (25 points) Explain $\pi = \Delta M/M - \eta_Y \Delta Y/Y$. You can treat the fractions as a single variable after defining it. Also explain η_Y.

3) (10 points each) Explain how each of the following events affect the demand for money.
A) Your wealth increases.
B) The liquidity of other assets decreases.
C) The expected inflation rate increases.
D) The real income increases.

4) (20 points) The book predicts we may eventually have a "cashless society." Do you agree? Explain your logic.