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 probably be Thursday, 2/18, 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. The equations at the end of the chapters will help you prepare for this part of the exam.

Chapter 1: What are macroeconomics, business cycles, recession, boom, unemployment, inflation, trade surplus, and trade deficit? Why do we aggregate and what problems does it cause? How do the Keynesian and Classical economists differ?

Chapter 2: Know what is in GDP and why the three ways of calculating it should give the same result. What is included and what is excluded? What are some reasons why using GDP to measure well-being is not accurate? Understand how GNP differs from GDP. Know GDP + FNP = GNP, GNP - DEP = NNP, NNP - Indirect Bus. Tax + Bus. Subsidy = NI, NI - Bus. Tax - Ret. Earnings + TR = PI, PI - T = PDI a.k.a. DPI. In general, if you know what each of them measures, you can figure out what to include and what to exclude. Also, your book does not include everything used in the calculations. In particular, understand why depreciation, NFP, TR, INT, and T matter to the calculations. Understand what determines private, government, and national savings. Why should S = I + CA? What are stocks and flows? Which is savings and which is wealth? How do we calculate real GDP, the GDP deflator (or CPI), and inflation? Why did I say that $r = (i-\pi^e)/(1+\pi^e)$ rather than the book's equation?

Chapter 3: What do the two production functions look like and why? What moves them? Unless I tell you otherwise, draw the production function with N on the horizontal axis. What is a supply shock? What determines the demand for labor? What moves it? What is the income-leisure trade off? What are the income and substitution effects and how do they relate to the supply of labor? What moves the labor supply curve? What is the full-employment level of employment, N̄, and why is it not an unemployment rate of 0%? Note that we will refer to full-employment level of unemployment as the natural rate of unemployment even though they are technically slightly different. Disregard skilled and unskilled labor. Draw just the combined supply and demand of labor. How is unemployment measured? Who is classified as unemployed and who is not in the labor force? Why might the unemployment numbers be misleading? What are frictional, structural, cyclical, and seasonal unemployment? What are the two forms of Okun's Law? The equation on the bottom of page 99 only works on an annual basis if the full-employment level of GDP grows at 3%. From World War II until 1975, it grew at 2.5% and then grew at 2% until 1996, and then went back to 2.5%. (I believe that it probably has gone back down to 2%.) Therefore, the equation is inaccurate, but shows how real GDP can grow and still have unemployment grow, as in 1991 - 1992.

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

1) (10 points) Explain $\dfrac{Y - \bar{Y}}{\bar{Y}} = -2(u - \bar{u})$. Note this is just the negative of what is in the book.

2) (15 points each) For each event, what happens to the unemployment rate? Determine if the following people are classified as unemployed. If they are, then determine which category of unemployment they are in. Explain your logic for all parts.
A) A 68 year old Economics Professor retires.
B) A Bethany graduate cannot find work June of this year.
C) A stay-at-home Dad decides to look for a job.
D) An unemployed steel worker is so tired of looking for a job, he stops looking.
E) A ski instructor in this area in a couple of months.

3) (15 points) Explain why the level we call "full employment" is not 0%.