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 Tuesday 4/6 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 5: Be able to manipulate the S/I diagram for large open economies. Be able to show what moves the curves, and know how to find a CA deficit or a KFA deficit. Personally, I think that you can figure out KFA easier and more directly because if there is excess savings, what do we do with it? We buy foreign stocks and bonds. If we have excess investment, how do we finance it? We export bonds and stocks, i.e., we borrow from abroad. 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? Be able to calculate the growth of total factor productivity. What is 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) (25 points) Explain $MD/P = f(r, i^m, \pi^e,$ risk of non-money assets, liquidity of other assets)

2) (10 points each) For each event, determine what happens to M1 and M2. Explain your logic.
A) You transfer $100 from your savings account to your checking account.
B) You buy your books costing $500 with your credit card.
C) You take $20 cash out of your checking account.
D) You move $5000 from your money market mutual fund to your small time deposit.

3) (15 points) Would M1 or M2 be better for the property of money we call "medium of exchange"? Explain your logic.

4) (20 points) Explain $\pi = \Delta M/M - \eta_Y * \Delta Y/Y$. Explain $\Delta M/M$ as one variable and $\Delta Y/Y$ as one variable. Also explain η_Y.