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 at a time to be determined in class, most likely March 27th.

Chapter 6 starting with Page 127: What are **Medicare** and **Social Security**? Note that some of this is in the handouts I gave you which are also posted on my web page. What are their effects on the economy? What is the problem with Social Security? What are some of the proposals for solving the problem? What are the pluses and minus of using each "solution"? 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**, a.k.a., **full employment unemployment rate**? How do **discouraged workers** and **underemployment** complicate the unemployment picture? What are the other costs of unemployment besides lowered production? How do we calculate **CPI, PPI, PCE Index** and **GDP deflator**. I won't ask you to do the calculation, but you may have to describe how it is done. Know how to calculate inflation from those numbers. 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 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?

Chapter 9: What is **economic growth**? What are the negative effects of economic growth? What is the problem of using this as a measure of welfare? What causes GDP per capita to grow? Why do small

changes in the growth of GDP matter? What is **labor productivity** and what changes it? Why is **saving** so important to growth? What is **human capital**? What are the advantages and disadvantages of **patents**? Why do open economies grow faster? How does population growth affect development? Why are property rights important for growth? The **four keys to development** on Page 203 will help you to understand parts of the chapter.

Chapter 10: What is meant by the term **long-run aggregate supply curve**? What determines its shape and its location? How does it relate to the PPF, a.k.a. the PPC? What is **aggregate demand**? Why does it take its shape? Note the logic used for the demand curve's slope does not apply to the slope of the aggregate demand curve. What moves the AD curve? (Anything that changes the demand for goods and/or services, other than price induced changes in the demand, will move AD.) *Remember that for all curves, if a variable on one axis changes causing the other variable to change, then you did not move the curve, you retraced it.* What causes inflation? What are **demand pull and cost push inflation**? The book goes into more detail in Chapter 11.

Chapter 11 (I added this little bit so the graphs from Chapter 10 make more sense.): Draw the SRAS curve the way the book draws the "modern SRAS" curve. If the LRAS curve moves left or right, the SRAS curve moves left or right too. **For now**, you do not need to know why. (There are times the SRAS will move but the LRAS will not, but you will get that after the test.)

Non-graded Homework Assignment #6A to be reviewed with Assignment #6.

1) (10 points) What is wrong with this statement, "When the price level goes up, people cannot afford as many goods, so they buy less. That is why the AD Curve slopes downward."?

2) (20 points) Illustrate the effects of an increase in government spending on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to the price level and the GDP?

3) (20 points) Illustrate the effects of an increase in taxes on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to the price level, the GDP, and the unemployment rate?

4) (20 points) Illustrate the effects of an increase in population on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to the price level, the GDP, and the unemployment rate?

5) (20 points) Illustrate the effects of an increase in taxes on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to the price level, the GDP, and the unemployment rate?

6) (10 points) Why does the LRAS curve take its shape?