Wilfrid W. Csaplar Jr. Intermediate Macroeconomics Review Sheet for Exam 4 and the Final

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 TBA, probably Tuesday, 4/30.

You will be given a pair of equations and asked to explain one of them. The most important equations are listed at the end of each chapter, or the equations describing the curves. Understand why they take those forms. Chapter 9 has a lot of important equations in it, but they do not list the "key equations." The key equations for this chapter are found mostly in the appendices. They are the equation on Page 350 in Question #5, equations 9.B.14 and 9.B.17 on Page 356, and equations 9.B.18 and 9.B.19 on page 357.

Chapter 8: What do the following terms mean: **aggregate economic activity, expansions, boom, contraction, recession, depression, peak, trough, business cycle, co-movement, recurrent but not periodic,** and **persistent**? Why have business cycles become longer and less severe since World War II? Why are some economists uncertain about that statement? What determines if a variable is **pro-cyclical, counter-cyclical,** or **acyclical**? What are **lagging, leading,** and **coincident variables**? If I gave you a variable, you should be able to determine which type of variable it is and the economic reason for that. Understand why the **SRAS/LRAS/AD** diagram takes its shape and what moves them. I mentioned two reasons for AD Curve's slope. One of the reasons is the one from Chapter 9 when the AD Curve is derived from the IS/LM/FE diagram.

Chapter 9: Be able to manipulate the **IS/LM/FE diagram** and the **real money supply/real money demand diagram** at the same time. *Make sure that interest rates change the same on the two diagrams with interest rates on them. Hint on real MS/MD: this is in real terms. Therefore, prices do not affect MD/P, they affect MS/P.* Understand why the five curves in this chapter take their shape. *The price level change causes LM and MS/P to change.* Why doesn't a change in the money supply have any long-run effects on GDP? Normally on the last test I ask the students to move IS/LM/FE, LRAS/SRAS/AD, and real MS/real MD lines at the same time. Be able to derive AD from the IS/LM/FE diagram. Be able to move the SRAS/LRAS/AD diagram around, including having the economy get back to full employment by itself. *Note that in the long-run, SRAS will move back to equilibrium and that causes prices to change.* Why doesn't a change in the money supply have any long-run effects on GDP? I realize the syllabus says that we finish Chapter 9 the class after the exam. However, we are a half class ahead and finishing the chapter before the test will make the test easier to study for and means the following Monday you will get out early.

Non-graded Assignment #8A to be gone over with Assignment #8.

1) (40 points each) Illustrate the following events on the LRAS/SRAS/AD diagram, real MS/real MD diagram and the IS/LM/FE diagram. Explain why the curve(s) moved as drawn. What happens to prices,

interest rates, unemployment rate, and real GDP?
A) Government spending increases.
B) The marginal propensity to import increases.

2) (20 points) Explain the neutrality of money using the IS/LM/FE diagram.

3) (15 points) Explain $Y_{AD} = f(P)$.

4) (40 points) Draw the LRAS/SRAS/AD diagram, real MS/real MD diagram and the IS/LM/FE diagram, with the economy in a recessionary gap. Illustrate what will happen in the long-run to bring the economy back to equilibrium. Explain why the curve(s) moved as drawn. State the long-run effects on the price level, interest rates, and GDP.

(So what if this totals well over 100 points, it is not a graded assignment.)

Review sheet for the finals.

The final will be in two parts. The two parts of the final will be in the same order as last spring. The second half of the final will be the same except you will have different numbers. If I were you, I would use a Keynesian, but not extreme Keynesian, approach to solve the problem because it is easier to solve problems in a Keynesian world. (That does not mean that Keynes is right, just easier to deal with.)

The first part of the final will be held the last day of class. It will cover the material that is not directly covered by the second half of the final. For example, I will not ask you to show an increase in the money supply on the IS/LM/FE diagram. Anything on any review sheet that is not explicitly covered in Part 2 of the final is fair game. For example, Question #1B above, could be on the first half of the final, but since Question #1A asked about government spending, it would not be in Part 1 of the final.

When I write the final, I look to see what I did not ask about, and what were the major topics. I write questions about those topics. I try to get the questions evenly distributed from all the tests. However, the second half of the final covers mostly the fourth test's material. Therefore, less of the fourth test's material will be on Part 1 of the final.