

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 5th or 6th. Note that Chapter 5 and Part of Chapter 6 were on Exam #1 last semester.

Chapter 5: What are **negative externalities** and **positive externalities**? How are they seen on the graph? What is the best way to offset them? Show that on the supply and demand diagram. Know the economic reasons for **providing a legal system, promoting competition, providing public goods, and income redistribution**. Know what **government sponsored** and **government deterred goods** are. What is the difference between **voting** and **spending**?

Chapter 6 (the part of the chapter which will be covered after the exam is the part which the book eliminated, so I will provide it in a handout.): How do we calculate **marginal tax rate, average tax rate, and total taxes paid**? What is meant by **proportional, progressive, and regressive taxes**? What is the **tax base**? How can increasing a tax result in less revenue? What are **sales, excise, ad valorem, and specific (unit) taxes**? Who pays the tax? What is the **Laffer Curve**? The book actually draws it in Chapter 13. What are **Medicare** and **Social Security**? (Note that 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 up through the top of Page 171: 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?

Non-graded Homework Assignment #4A to be reviewed with Assignment #4.

- 1) (10 points) Explain why a drop in the unemployment rate may be an omen that the economy will be doing worse.
- 2) (15 points) All statistics have problems with the way they are calculated, especially in macroeconomics. GDP systematically underestimates the value of production in a country, especially developing countries. Explain why it underestimates output mentioning three types of production which are not counted.
- 3) (20 points) Suppose that at the beginning of the year the CPI was 500 and at the end of the year it was 550. What is the inflation rate? Show all work. If we had expected an inflation rate of 6%, then who is hurt and who gains? Explain your logic mentioning two specific groups of people who lose and two groups of people who gain from this inflation and explain how they lose or gain.
- 4) (5 points) Why doesn't fully anticipated inflation hurt most people?
- 5) (5 points each) Is this part of GDP? If yes, tell me which part and why you chose that part. If no, then tell me why it is not.
 - A) You buy \$500 worth of Google stock and pay a commission of \$10.
 - B) The government pays your uncle \$300 in unemployment benefits.
 - C) I pay you to shovel my driveway.
 - D) You buy a used car for \$6000, which cost the dealer \$4000.
- 6) (10 points each) For each event what happens to the unemployment rate and the labor force participation rate? If the unemployment rate changes, tell me which part. Explain your logic for all parts.
 - A) I know several people who have quit their job because they did not like their boss.
 - B) A lifeguard in this area now.
 - C) John is tired of looking for a job, so he quits looking.