Wilfrid W. Csaplar Jr. Intermediate Macroeconomics Review Sheet for Exam 3

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.

The review session will probably be Tues., 4/8, at a time and room to be determined.
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 6 starting with Page 219: 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** and **M2**? 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 255** 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?

Chapter 8 up through Page 289: 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?

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

1) (10 points) How does increasing the discount rate affect the money supply? Explain the process.

2) (20 points) Write the equation for the Quantity Theory of Money. Why does it matter if V is constant? Explain how one implication of the theory would be different if the velocity was unstable.

3) (15 points) Explain $\pi = \Delta M/M - \eta_Y * \Delta Y/Y$. You can treat Δvariable/variable as one variable after defining it.

4) (10 points) Does M1 or M2 do a better job as a store of value? Explain your logic.

5) (10 points) Does M1 or M2 do a better job as a medium of exchange? Explain your logic.

6) (10 points) What does "persistent" mean and how does it apply to the definition of the business cycle?

7) (25 points) The book says some economists say that the business cycles have not be less severe? Explain their logic. I say economic theory predicts that they should be less severe. Explain my logic mentioning two reasons.