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

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. 4/20, 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 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 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?

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 except for the parts listed on the next page.: 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.* 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.

Non-graded Assignment #9A to be reviewed with Assignment #9.

1) (30 points) Draw the IS/LM/FE diagram and the real MS/real MD diagram. Illustrate the effects of an increase in government spending. Explain why the curves moved as drawn. What happens to the GDP and the interest rate?

2) (30 points) Draw the IS/LM/FE diagram and the real MS/real MD diagram. Illustrate the effects of The Fed buying bonds on the open market. Explain why the curves moved as drawn. What happens to the GDP and the interest rate?

3) (30 points) Draw the IS/LM/FE diagram and the real MS/real MD diagram. Illustrate the effects of an increase in price level. Explain why the curves moved as drawn. What happens to the GDP and the interest rate?

4) (15 points) Draw the IS/LM/FE diagram. Illustrate the effect of an improvement in technology. Explain why the curve(s) moved as drawn.

So what if this totals to 105? You are not getting a grade for it.

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 in the past. 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 #4 above, could be on the first half of the final, but since Question #1 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 third test's material. Therefore, less of the third test's material will be on Part 1 of the final.

Material covered after Exam #3

Chapter 9: Why doesn't a change in the money supply have any long-run effects on GDP? **(Neutrality of money.)** 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?

1) (30 points) Use the LRAS/SRAS/AD diagram and the IS/LM/FE diagram to prove the neutrality of money.

2) (30 points) Draw the LRAS/SRAS/AD diagram and the IS/LM/FE diagram showing a recessionary gap. Explain how you know it is a recessionary gap. If the economy is left alone, what will happen to the economy? Illustrate the effects on the graphs and explain why the curves moved as drawn.