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 Wednesday, 4/6, at a time and place to be determined. See the revised schedule at the bottom of the last page.
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 5: What is the **current account (CA)**? How is it calculated? What is the **capital financial account (KFA)**? Why should the CA + KFA = 0? How do **NFP** and **unilateral transfers** enter the equation? Do not worry about *official reserves* or *official settlements balance*. Note that the summary on Page 177 does a great job of showing how all the terms relate to each other. Why does $S^d = I^d + CA$ or more easily put $S^d + KFA = I^d$? Be able to manipulate the S/I diagram for **small open economies**. Be able to show what moves the curves, and know how to find a CA deficit or a KFA deficit. Personally, I think that you can figure out KFA easier and more directly because if there is excess savings, what do we do with it? We buy foreign stocks and bonds. If we have excess investment, how do we finance it? We export bonds and stocks, i.e., we borrow from abroad. Know how government policy and shocks affect the diagram. Be able to manipulate the S/I diagram for **large open economies**. Be able to show what moves the curves, and know how to find a CA deficit or a KFA deficit. How are the **twin deficits** related?

Chapter 6: What causes economic growth? How do we measure **A**? Be able to calculate the growth of **total factor productivity**. 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 **ΔY/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 235 - 237.) 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 until Page 260: 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 259** should be a big help.

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

1) (15 points) Explain $\Delta Y/Y = sA-d$.

2) (5 points) Why don't we measure technology directly?

3) (10 points each) For each of the following, explain how this would affect the long-run growth of the economy in the endogenous growth model.
A) Patent lives are lengthened.
B) Taxes on interest and dividends are cut.

4) (10 points each) What happens to M1 and M2 when each of the following events occurs? Explain your logic.
A) You move $400 from a savings account to your checking account.
B) You buy a $500 textbook with a check.
C) You buy a $350 textbook with a credit card.

5) (10 points each) For each event, determine what happens to _real_ money demand. Explain your logic.
A) GDP increases.
B) Real interest rates increase.
C) The price level increases.

This is the revised schedule caused by my doctor's appointment for my knee. The changes are in yellow.

XIII. Tentative Course Schedule:

Tuesday	Monday Classes	Thursday	Wednesday Classes
1/31	Chapters 1 & 2	2/2	Chapter 2
2/7	**Homework #1 Due** Chapter 3	2/9	Review Homework #1 and Chapter 3
2/14	**Homework #2 Due** Chapter 4A	2/16	Review Homework #2 and Chapter 4
2/21	**Homework #3 Due** Chapter 4	2/23	Review Homework #3 and #3A, Chapter 4
2/28	**Exam #1 on Chapters 1-4 & 4A**	3/2	Chapter 5
3/7	**Homework #4 Due** Review Exam #1	3/9	Review Homework #4 and Chapter 5
3/14	**Spring Break**	3/16	**Spring Break**
3/21	**Homework #5 Due** ⅓ Chapter 5 & ⅔ Chap 6	3/23	Review Homework #5 Chapter 6
3/28	**Homework #6 Due** ⅓ Chapter 6 & ⅔ Chap 7	3/30	No class. See note
4/4	Review Homework #6 & 6A, Chapter 7	4/6	**Exam #2 on Chapters 5 - Page 258**
4/11	Chapter 7	4/13	**Homework #7** Chapter 8
4/18	**Homework #8 Due** Review HW #7 Chapter 8	4/20	Review Homework #8 and Chapter 9
4/25	**Homework #9 Due** Chapter 9	4/27	Review Homework #9 & 9A and Chapter 9
5/2	**Exam #3 on Page 259 - Chapter 9***	5/4	Review second half of final
5/9	Rev Exam 3 printout of grades	5/11	First half of the final

The review sessions for the exams will generally be the night before the exam.
*Seniors taking _comps_ will take Exam #3 on 4/27 or 4/28 at a time to be arranged.
To make up the class missed on 3/30, I will hand back Exam #2 with an answer key.