

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 probably be Tuesday, 4/4.

Note that, in the past, all of this material was on Exam #4.

For the laboratories, be able to **adjust data for seasonality**, estimate sales for a period given the annual sales, and be able to **forecast** sales into the future. These require calculating *centered moving average*, *preliminary seasonal indicator*, *average seasonal indicator*, *revised seasonal factor*, *total seasonal factor*, *trend* (using a regression), and *normal*. In that order. The *normal* is what is used to forecast.

Chapter 13: Know how to interpret changes in the **nominal exchange rate** to determine if a currency has **appreciated, depreciated, revalued, or devalued**. Be able to calculate the **real exchange rate**. Hint: the exchange rate is the price of the \$, so it is the other currency per dollar. When calculating the real exchange rate, make sure the units of currency cancel. So do not multiply C\$/US\$ by C\$/Q because the C\$ will not cancel. What should the nominal exchange rate be when using **PPP**? Ignore the J-Curve. Be able to use the **supply and demand for foreign exchange** to determine the nominal exchange rate. *Hint: The reason for demanding a currency or supplying a currency is to buy something – goods and services or stocks and bonds – which are in a foreign currency. Therefore, most events will affect both countries in a similar manner. Thus, most events will move both supply and demand.* I will only ask about changes in foreign or domestic values of the following variables: prices, interest rates, and GDP. How do changes in the exchange rate affect the IS/LM/FE diagram? You can use the book's explanation, or you can use the Keynesian Cross explanation. Understand how fiscal and monetary policies affect the IS/LM/FE diagram for a flexible exchange rate. Understand how our policies affect the foreign country. For the **fixed exchange rate**, understand how having an exchange rate set at the wrong level will cause the money supply to change. This will be using the figures on Pages 510 - 513 of the supply and demand for currency. For monetary policy with a fixed exchange rate, understand why the **diagrams on Pages 514 and 515** take their shapes and why that means the country loses control of their money supply.

Chapter 14: What is a **central bank**? What does it do? Know the basics of what goes on the assets or liabilities and net worth sides of the **balance sheet** for a bank and for the **Fed**. How does the **money multiplier process** work? Warning, if you just write *multiplier*, then you are referring to the autonomous expenditure multiplier, a.k.a., the government spending multiplier, a.k.a., the investment multiplier. If you mean the money multiplier, you must write the word "money." Understand the formula for the money multiplier. Who are the **Board of Governors of the Federal Reserve System**, and the **FOMC**? How do the **Fed's tools** (instruments) affect the **money supply, monetary base, money multiplier**, and the **intermediate targets**? The table on Page 550 should help here.

This is the non-graded assignment #7A that will be gone over with assignment #7.

1) (20 points) Use the real MS/MD diagram to explain why the central bank cannot control both interest rates and the money supply at the same time.

2) (15 points each) For each of the following, what happens to the balance sheets for the Fed and for a bank. Briefly explain how you reached those conclusions.

A) The Fed buys \$100,000 worth of bonds from an individual.

B) The Fed loans a bank \$10,000.

C) A bank loans out \$500 to a person.

3) (15 points each) For each event, determine what happens to the size of the monetary base, the money multiplier, and the money supply. Briefly explain how you reached the conclusions.

A) The Fed buys bonds from the public.

B) The Fed increases the discount rate.

C) The public decides to keep more money as cash.

(So what if the total points is 110. You are not doing this assignment.)