

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, 4/26.

For the laboratories, you will be expected to be able to calculate a **Laspeyres Price Index**, **Paasche Price Index** and the **PCE** with any base year and the resulting inflation. *Note that the PCE is the square root of the product of the Laspeyres and Paasche indices.* You should also be able to do the simple forecasts similar to those in Lab #4. That would be the **same value, same change, same percent change, n-period moving average, and n-period weighted moving average**. You should also know what the advantages and disadvantages of each of these methods are. What patterns do they give for the plots over time.

Chapter 14 starting with Page 550: Be able to show monetary policy on IS/LM/FE diagram for both controlling MS and controlling  $r$ . Prove the Fed cannot control both the money supply and the interest rates with real MS/MD diagram.. What are the **lags** in monetary policy and what are the possible implications of it? Should we use **rules** or **discretion** for monetary policy? What are the advantages of each? Ignore the game theory. How can the central bank get credibility? Why is an independent central bank important?

Chapter 15 (Rikiah will end at Page 593): How do we calculate the government's **budget deficit**? What is the difference between a deficit and a **surplus**? What is the difference between a deficit and a **debt**? What are the **primary deficit** and the **full employment budget deficit**? How are they calculated and why are they important? What are the **automatic stabilizers** and how do they work? What is **government capital**? What is the difference between the **average tax rate** and the **marginal tax rate**? Which matters the most? How do we calculate total taxes paid? What are **distortions** and how do taxes cause them? How do governments finance their deficits? How fast is the growth rate of the **debt-GDP ratio**? Is the debt a burden for future generations? Understand **Ricardian Equivalence** both with and without **inter-generational transfers**. Are its assumptions logical? What is **seigniorage**? Why does it occur and what does it cause? Ignore real seigniorage.

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Homework #9A to be reviewed with Homework #9.

1A) (15 points) Given the side-effects of taxes, would a head tax (everybody pays the same amount for their head) or an income tax be a better tax? Only examine them from the views of economic incentives, not from an equity point of view, nor from a total revenue point of view.

1B) (15 points) Using the same type of logic as in Part A, would a sales tax on food or a property tax be a better tax? Explain your logic.

2) (20 points) Explain why a high interest rate causes the debt-GDP ratio to grow. Does the equation for the growth rate of the debt-GDP ratio have the growth rate of real or nominal GDP in it? Why?

- 3) (15 points) Explain seigniorage. Why might it be a good idea for some developing countries?
- 4) (15 points) What is Ricardian Equivalence? Why might it apply even if the current generation does not pay the debt?
- 5) (20 points) Draw the Laffer Curve. Explain why it takes that shape.
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Review sheet for the Final Exam.

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. There will definitely be lab material.