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 Thursday, 3/21, at a time and place 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: 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 **$\Delta Y/Y$ = 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 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: 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. 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?

Non-graded Assignment #6A to be reviewed with Assignment #6 is on the back.

1) (15 points) Why has the velocity of M1, V1, been unstable while V2 has been stable over the past 5 decades?

2) (10 points each) For each of the following events, determine how they affect M1 & M2. Explain your logic.
A) You move $50 from your savings account to your checking account.
B) You pay for a $45 piece of clothing with a check.
C) You pay for a $70 piece of clothing with a credit card.
D) You deposit $30 cash into your money market account.

3) (15 points) Explain Asset Demand = f(expected return, risk, liquidity)

4) (15 points) How can open market operations be used to increase the money supply? Explain your logic.

5) (15 points) Explain the following equation, including η_Y. $$\pi = \frac{\Delta M}{M} - \eta_Y \frac{\Delta Y}{Y}$$