

This review sheet is intended to cover everything that could be on the exam. However, it is possible that I may have inadvertently overlooked something. 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 on the homework assignments, and possibly a few definition questions. I am more likely to ask questions that make you use definitions rather than have you recite them.

The optional review session for this test will be Tuesday 3/2 at 7:00 in a room to be announced.

Chapter 6: What is the tax base? How can increasing a tax result in less revenue? What are sales, excise, ad valorem, specific (unit) taxes? What is the Laffer Curve? What are Medicare and Social Security? What are their effects on the economy? What is the problem with Social Security? What are some of the proposals for solving the problem? I am most likely to give you a proposal for a solution and ask you how it would work, and whether or not you would implement my proposal.

Chapter 7: What are, and how do we calculate, the unemployment rate, labor force participation rate, and inflation rate? What are stocks and flows? How do they relate to unemployment rates? Know how to classify people by the reason they are unemployed, i.e., laid off, job leaver, etc. Know how to tell who is in which category of unemployment, i.e., frictional, structural, etc. What is the natural rate of unemployment and full employment? What are the other costs of unemployment besides lowered production? How do we calculate CPI, PPI, and GDP deflator? Why does it matter if inflation is anticipated or unanticipated? What are the costs of unanticipated and anticipated inflation? I added shoe-leather cost. Note that if inflation is expected to be 10% and it ends up being 7%, we had unexpected deflation of 3% and that hurts borrowers. Know what an expansion (a.k.a. boom), contraction, recession, depression, trough, and peak are. What is a leading indicator?

Chapter 8: What is the simple circular flow? What do we mean by product markets and factor markets? Know what is calculated in GDP and what is not. That method is the expenditure method (C+I+G+X). Remember that "X" can be negative and that you are likely to get the definition of "I" wrong. Stocks and bonds are not investments. Ignore inventory investment. It is very small and confusing. Why should the GDP calculated this way equal the sum of the incomes and the sum of the value added? What are some problems with trying to calculate GDP? What are some of the limitations in our understanding the meaning of different levels? Ignore GDI because they state it is the same as GDP, just calculated differently. Know how to get from GDP to NDP, NI, PI, and DPI. Note that if you know what those terms are trying to measure, you ought to be able to figure out what is added and what is subtracted. Capital consumption allowance is another way to calculate depreciation. What is the difference between real and nominal GDP? Ignore the chain-weighted measure for real GDP. How do we compare GDP across countries?

Chapter 9: What is economic growth? What are the negative effects of economic growth? What is the problem of using this as a measure of welfare? What causes GDP per capita to grow? Why do small changes in the growth of GDP matter? What is labor productivity and what changes it? Why is saving so important to growth? What is human capital? What are the advantages and disadvantages of patents? Why do open economies grow faster? How does population growth affect development? The four keys to development on pages 212 and 213 will help you to understand parts of the chapter.

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Wilf Csaplár Jr.

Economics 162

Homework #4A

To be covered on 3/1

This is a non-graded homework assignment that will be covered during the class when we cover assignment #4. The purpose of this assignment is to give you sample questions for the material we covered after you handed in homework #4. This material will be on the exam.

1) (10 points each) Are the following part of GDP? If yes, then tell me which part. If no, then explain why not.

- A) You buy a new issue of a stock that you expect to gain a lot of value.
- B) You pay a friend to clean your room.
- C) You buy a used car from a used car dealer.
- D) You buy a new stereo from Japan.

2) (20 points) Does GDP, NDP, NI, PI, or DPI best measure how well off the country is as a whole? Explain your logic by comparing that category to the next broader and the next narrower category.

3) (20 points) Does an increase in real GDP per capita mean the country is better off? Explain your logic with at least two reasons.

4) (20 points) Periodically, somebody proposes changing the length of a patent. For example, some people feel that the patents on drugs are too long. What are the advantages and disadvantages of shortening the length of the patent?