

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. I will probably ask one of the questions from the book at the end of the chapters.

The review session for this class will be at a time to be determined, probably Wednesday, 10/14.

The exam will take the same format as last year's exam. A question about theoretical capitalism, one question each about the three countries, one question each about diverging from the theory strength or weakness, one question for each pair of countries comparing them.

Chapter 6: Know that **Hobbes' *leviathan state*** is the implicit foundation of the European model which we talk about in the next chapter and that **Smith's *invisible hand*** is implicitly the foundation for the Anglo-Saxon model in the next chapter. Understand why **efficiency** requires that  $MB = MC$ . *Some economists say that equation explains all of economics.* Know how **supply and demand curves** yield  $MB = MC$ . Know that for markets to work, they need the **rule of law** to be enforced and they require **perfect competition**. What is meant by **fiscal policy, monetary policy, and financial intermediaries**? *Note that, when trying to stabilize the economy, some economists feel fiscal policy and/or monetary policy will not work but others feel they may work.* Understand how the following are rationale for having government intervention in the market and how that intervention might occur: **monopoly power** (ignore the graph), **negative externalities, positive externalities, public goods** (why does the **median voter** matter?), **income redistribution, macroeconomic stability, and economic growth**. For the six outcomes/criterion for evaluating economies, know why theoretical capitalism is good for **efficiency**, potentially poor for **economic stability** (but the government may not be able to help), has an inequitable **income redistribution** without government intervention, has no clear result on **economic growth** but is probably good because of the efficiency, and has **long-run viability** except with the possible exception of the **environment viability**.

Chapter 9: This chapter is mostly a summary and comparison of Chapters 11, 12, and 13. So, those chapters should help you to understand this chapter. Know how the **Anglo-Saxon Model, European Model, and the Asian Model** differ. What is the difference between **common law** and **civil law**? Why might they matter or not matter? What type and amount of **government intervention** do each of the three models have? What are the advantages and disadvantages of each? Although all three models have a variety of **types of ownership of large and medium sized companies** and a variety of ways of **financing corporate expansion** what are the types of ownership which are most common in each model and what is the most common way of raising funds? What are the advantages and disadvantages of each? The types of ownership are **widely held, family owned, and state owned**. The financing is **stocks, bonds, and venture capitalism**. How does the size of the **public sector** as a part of GDP differ in each model? How does **business freedom** vary across the models?

Chapters 11 - 13: Know in general how the countries are doing as far as **unemployment, GDP per capita, growth rate of GDP, inflation, government deficit, government debt, interest rates, Gini Coefficient, and trade deficit or surplus**. Also, how does the country do with respect to the six outcomes we discuss, growth, efficiency, income distribution, stability, long-run viability, and environmental viability. *I will not ask for specific numbers, rather does the country have good values or are the values too low or too high. Look at old Exam #1 for the types of questions I might ask.*

Chapter 11: For the United States, understand why we have **separation of powers**. How does **common law** work? In what way has the **public sector** been growing? What are the advantages and disadvantages of **proprietorship, partnerships, and corporations**? *The latter is the most important for this course because they produce the most, even though there are more of the other two.* The advantages of corporations include **limited liability** for the owners, can change management easier, and can sell stocks and bonds. The disadvantages include the **principal-agent problem**. What do we mean when we say the stock market is **liquid**? Is that good or bad? What are the good and bad aspects of **hostile takeovers** by **venture capitalists**? How can they help **creative destruction**? Know what types of regulations we have **eminent domain, labor rights, and the EPA**. We can tell if the regulations make economic sense if the costs are less than the benefits. What deregulation has occurred during the late 20<sup>th</sup> century

and early 21<sup>st</sup> century? *The main deregulation was in telecommunication, financial system, and transportation.* How have **labor unions** changed over time? What has happened to the so called **entitlements** like Social Security, Medicare, Medicaid, and Welfare? For all changes mentioned in this paragraph, are those changes for better or worse?

Chapter 12: For Germany, you need to know the important events and institutions mentioned in the presentation and the book. What is meant by the **EU** and the **euro-zone**? How is that both a help and a hindrance to Germany economic policies? The **euro crisis** illustrates one disadvantage. How are they a typical **European style welfare state**? Why does the **civil law** matter or possibly not? What are the advantages and disadvantages of **managerial capitalism**? What is meant by **stakeholders** have the same or higher priority than **stockholders**? What are the advantages and disadvantages of this system? Why are the advantages and disadvantages of typically having fewer shareholders with more **cross-holdings**? What are Germany's **insider trading** laws like compared to the Anglo-Saxon model? What are the results of having **less transparency in the financial system**? What is the **mittlestand** and how does it relate to **co-determination** and unions? How do the **capital markets** and **banks** differ from those in the USA? What are the advantages and disadvantages of the highly regulated labor market? What are **nationalization** and **privatization**? What is the **demographic bomb**? From the presentation (or in some cases, I added this information) What is their **anti-trust policies, freedom from corruption, economic freedom, political freedom, and tax system**? Why was the end of World War I so important to the German economy? How did World War II affect Germany? How did the two Germanies do between World War II and 1990?

Chapter 13: For Japan, you need to know the important events and institutions mentioned in the presentation and the book. What are the general beliefs of **Confucianism** and how do they affect the Japanese economy? How did the **Meiji Period** affect Japan? Why was Japan so successful after World War II but not as much in the last 20 years. For the **Four Tigers**, understand how reducing the **fertility rate**, reducing the **mortality rate**, having governments which help to stabilize investment, emphasis on **human capital**, being **open to trade, export orientation**, and encouraging **FDI** to come into the country have affected those countries. *Since the 1980s, they are similar to Japan after WWII.* Why does Japan have a **net foreign investment** position? How are the **Keiretsu** organized? Know that they are family owned and prefer **relational contracts** which leads to **tunneling** and **propping**. How could the reduced **transparency** of their accounting mean that they have low **P/E ratios**? Note that those companies are more highly leveraged and the citizens buy fewer stocks than Americans. What are the relationships between the workers, unions, and the firm? How does an **implicit lifetime employment** and **share economy** affect the economy? How is the **income distribution**? How have **METI** and its predecessor **MITI** affected the Japanese economy? What is their problem with an aging population? From the presentation (or in some cases, I added this information) What is their **anti-trust policies, freedom from corruption, economic freedom, political freedom, and tax system**? How did World War II affect Japanese economy? What are the **sogo shosha**? For everything mentioned in this paragraph, what are the good and bad aspects of those qualities and/or events?

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This is the nongraded Assignment #6A that will be reviewed on 10/13.

- 1) (15 points) What is meant by the *co-determination*? What is its greatest advantage?
- 2) (15 points) What is meant by the *euro-zone*? What is the greatest problem for Germany being part of it?
- 3) (20 points) Do you think the German laws about the boards of directors, or the USA laws are better? Explain your logic noting how the boards are different in the two countries.
- 4) (15 points) Explain how Confucianism could lead to tunneling. What is the main disadvantage of that?
- 5) (15 points) What are the *sogo shosha*? What is the biggest advantage of them?
- 6) (20 points) Other than the problem mentioned in Question #5, what aspect of the Japanese economy would it help the US economy to emulate? Explain how that would help us.

Note for all of these questions and for the other topics in these chapters, I could ask the opposite of each question. For example, instead of asking about advantages and strengths, I could ask about disadvantages and weakness or vice versa.