

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 TBA on Wednesday, 10/30.

For the laboratories, be able to run regressions. Understand what **Adjusted R^2 , Significance of F , coefficient, T -statistic, P -value, upper and lower 95%** mean. What are good values for those numbers? Be able to know when to eliminate a variable from a regression based upon those statistics. Know how to run a regression based on time. Be able to use those results to write an equation which will predict your Y variable. Be able to check for **multi-collinearity** using the correlation coefficients with a cutoff of 0.80, check for **auto-correlation** and **heteroscedasticity** using the residual plots. For the former two, be able to do the simple corrections of eliminating a variable and using a squared term or $\ln$ respectively. *Note that if you use $\ln$, you must do $\ln$ for all variables.* Know the formal test for heteroscedasticity using the **F-distribution**.

Chapter 11: What is meant by **real-wage rigidity** and **nominal wage rigidity**? Which one is the important one? Be able to explain it with the following explanations, and be able to explain the problems with them. How does **the high wage reduce turnover** and/or increase efficiency? Why does the **effort curve** take that shape and why do you want the point of tangency? How does the **efficiency wage** cause high unemployment? What does it do to the FE line? How do **menu costs** and **imperfect competition** cause high sticky prices? For the latter, we mentioned that the firms will not lose all of their customers if they do not respond to the market, the possible assumption that their competitors may only meeting price decreases.

Chapter 12: Understand the theory using the LRAS/SRAS/AD diagram which would result in a nice **Short-Run Phillips Curve (SRPC)**. Understand what moves the **Augmented SRPC** and the **LRPC**. Note that the intersection point is only the point where we will be if we are at full employment. Therefore, if we do not have $\pi = \pi^e$, then the economy will not be at that point. The point the economy is at depends upon the relationship between π and π^e . What are the costs of unemployment? Understand both the **cultural** and the **hysteresis** explanations of what determines the **natural rate of unemployment**, a.k.a. the unemployment rate at full employment and the **non-accelerating inflation rate of unemployment (NAIRU)**. The latter is the **insider-outsider model**. What can be done to reduce the natural rate of unemployment? What are the problems with **anticipated inflation, unanticipated inflation, and hyperinflation**? How can inflation be fought? What are the advantages and disadvantages of **cold turkey** versus **gradualism**? Why aren't **wage and price controls** a good idea? How can **tax-based income policies (TIP)** help reduce inflation? Why might they make the problem worse?

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

1) (20 points) Suppose that at the start of the year, the CPI was 900 and people expected 5% inflation. At

the end of the year, the CPI was 918. Calculate the inflation rate showing all work. Who gains by this inflation? Explain your logic.

2) (20 points) There are several ways to move the LRPC to the left. Which one would you use? Explain how that would move it to the left and why you chose that.

3) (15 points) Look at the graph of Argentina's inflation rate on the link below. Do you think they have been using the gradual or cold turkey approach? Explain your logic. Do you think they should change their approach? Explain your logic. <https://tradingeconomics.com/argentina/inflation-cpi>

4) (15 points) One province in Argentina has created its own currency. Do you think that was advisable? <https://theworld.org/segments/2024/10/18/chachos-or-pesos-in-one-argentine-province>

5) (15 points) Most years, I have argued that I feel the natural rate of unemployment is 5%. Look at this data. Do you feel it is still 5%? Explain your logic. <https://data.bls.gov/timeseries/LNS14000000>

6) (15 points) What happened to the natural rate of unemployment when women entered the labor force? Explain your logic.