

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's time will be determined, probably 4/25.

Chapter 20 starting Page 773: Be able to use the **MEC/MAC** diagram to find the optimal level of pollution. Understand why the curves look like I drew rather than what the book drew. How can **taxes, subsidies, tradable permits (cap-and-trade), and regulations** be used to get the market to the optimal point? What are the advantages and disadvantages of them? How might **informal regulation** work? Why is **climate change** such a big problem and why is it hard to address?

Chapter 11: What are **fiscal and monetary policies**? What is a **public good**? Why should the government provide it? What are the differences between **current** and **recurrent** expenditures? Why do they matter? How do **wages, salaries, capital goods, maintenance, military spending, interest payments, subsidies, state-owned enterprises (SOEs), and intergovernmental transfers** affect the budget? Note that they vary greatly in size between countries, but each type of spending has its own unique properties. What is meant by **tax capacity**? What are the advantages and disadvantages of the following types of taxes: **taxes on international trade, personal & corporate income taxes, and sales & excise taxes** (including **VATs**)? What is the problem with raising taxes too high? What other sources of taxes might be available? How can changes in tax administration and/or tax reform help the government to collect more money? How do taxes affect saving, investment, income redistribution, and equity? Why might taxes be inefficiently collected?

Chapter 12: What is meant by the **financial system**? How does it relate to **monetary policy**? What are **micro-credit institutions**? What are the **three uses of money**? What is in, and what are the differences between **M1, M2, and M3**? What is meant by **financial intermediation**? How does it affect risk and stabilize the economy when working correctly? What are the problems with **inflation**? In general, what are the differences between **chronic inflation, acute inflation, and hyperinflation**? What are the effects of them? What is meant by **fixed (pegged) exchange rate, adjustable peg, crawling peg, managed (dirty) float, wide band system, and clean float**? What are the advantages and disadvantages of each? What are **international reserves**? Understand why  $M = DC + IR$ . Use it to explain why having a fixed exchange rate causes the central bank to lose control over the money supply. What are the **four tools** the central bank can use to control the money supply. (**Moral suasion** is not in my macroeconomics textbooks because it is ineffective.) How can **credit ceilings** be used to affect the inflation rate? What is meant by **shallow finance** and **financial deepening**? How do the following cause shallow finance: low real interest rates, restrictions on entry to the financial market, and high required reserves? What are **informal credit markets** and **micro-finance**?

Chapter 13: What is the difference between **illiquid** and **insolvent**? What are the advantages and disadvantages of foreign borrowing? For the **six debt indicators on Page 461**, understand why those would indicate too large of a debt, either illiquidity or insolvency and either a **debt service problem, external transfer problem, or internal transfer problem**. Understand the equations on Pages 462 -

463 and how they relate to the issue, especially 13-2 and 13-4. What is meant by **debt overhang**? What can cause a **debt crisis**? What is the impact upon the country of the crises? How can they get out of the problem? What are the pluses and minuses of the **proposals on Pages 471 and 472**? How can short-term capital flows affect the crises? What is meant by **defensive lending** and **completion point**? Why do they matter? How do short-term loans help the problem? What is a **creditor panic**? What causes it? What can be done about it? What are the advantages and disadvantages of the **solutions on Pages 489-490**? How does **moral hazard** relate to the situations?

Chapter 14: What is *foreign aid*? What is the difference between *concessional* and *non-concessional assistance*? What are **ODA** and **private voluntary assistance**? What are **multi-lateral aid, IMF** and **World Bank**? Why do governments give aid for foreign policy, to fight poverty, to small countries, commercial ties, and to help democracies? Understand the reasons why some people feel that aid is good for the economy, while others think it has little or no effect, and others feel it depends upon certain circumstances. What is the **poverty trap**? Why might the effectiveness of aid depend upon what it is used for and whether or not the money is **fungible**? What is the *principal-agent problem* and how does it relate to the IMF? What can be done to improve the effectiveness of aid? Does **conditionality** affect the effectiveness of the aid? How can **country selectivity, recipient participation, harmonization & coordination, and results-based management** improve the results? Note: the last time this course was taught, the semester was a week too short, so this chapter was not covered. The time before that, it was after the last exam. So, if you are looking for old exam questions, you will have to look at its final.

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This is the non-graded Assignment #10A that will be reviewed with Assignment #10.

- 1) (20 points) Go to the link below. Why do you think the first nine countries on the list get the most net ODA? Explain your logic. Why do countries with that characteristic get the most aid? Explain your logic. [https://data.worldbank.org/indicator/DT.ODA.ODAT.PC.ZS?most\\_recent\\_value\\_desc=true](https://data.worldbank.org/indicator/DT.ODA.ODAT.PC.ZS?most_recent_value_desc=true) Look at China in that table. What does that number mean?
- 2) (20 points) What does it mean if foreign aid is “fungible”? That is both good and bad for the effectiveness of the aid. Explain how.
- 3) (20 points) How does multilateral aid help with harmonization of aid? Why is that good?
- 4) (20 points) One school of thought is that most aid, other than emergency aid, hurts the country in the long run. Explain why they feel that.
- 5) (20 points) What is meant by “results-based management”? Explain how that can improve the effectiveness of aid.

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#### Review for the Final

The final is scheduled for Wednesday 5/1 at 1:00. However, since  $\frac{3}{4}$  of the students in the class are graduating or taking *comps*, only one of you will be taking the final. So, it will be whenever you want. The review session will be at a time TBD. I will try to have the points for questions on the chapters be proportional to the number of classes spent on each chapter. If there is a topic I wanted to ask, I will ask it now. Obviously, I will also ask about the big topics. Therefore, if there is a graph or a topic we spent a lot of time on, it will be on the exam.

The paper will be due at the time of the exam. I will want it and all of your sources turned in on Canvas. What I mean by your sources, is this. I want an electronic copy of the source. If it is already a pdf or Word document, great. If it is a webpage, save it as a pdf or take a screen grab of it.