

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 be at a time to be determined in class, at some time on Wednesday, 3/19. We will determine the time during the first class after spring break.

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? Why should you start saving for retirement now? 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? Why are property rights important for growth? The **four keys to development** will help you to understand parts of the chapter.

Chapter 12: Note we will not be making the Assumption #4, that the economy is closed. We will assume an open economy. What are C, I, G, and X? What determines them? Know what moves the flatter line on the **45° diagram, a.k.a. the Keynesian Cross diagram**. *We only need the $E = Y$ line and $C + I + G + X$ line and to move it. The other lines, like the C and the $C + I$ lines were just to help you understand the main line. Ignore the savings line and the $S = I$ derivation of the model. It is mathematically the same as what we did and the book does, but it is more complicated to understand.* What are the **MPC**, **MPS**, **APC**, and **APS**? *Note that even though our model assumes the MPC is the same for rich and poor, it also concludes that the rich will have a lower APC than the poor. It is easier to notice a person's APC than MPC.* Know what changes C, I, G, and X. Why does consumption depend upon wealth, although not much? Why does investment depend upon interest rates? Ignore the planned versus unplanned investment. What is a lump-sum tax and how does it affect the 45° diagram? What determines net exports? What determines the size of the **government spending multiplier**? What is the economics behind it? How do we see it on the Keynesian Cross diagram? How do our assumptions about prices, interest rates, income taxes, and imports affect its size?

Chapter 10: What is meant by the term **long-run aggregate supply curve**? What determines its shape and its location? How does it relate to the PPF, a.k.a. the PPC? What is **aggregate demand**? Why does it take its shape? Note the logic used for the demand curve's slope does not apply to the slope of the aggregate demand curve. What moves the AD curve? *Anything that changes the demand for goods and/or services ($C+I+G+X$), other than price induced changes in the demand, will move AD. Remember that for all curves, if a variable on one axis changes causing the other variable to change, then you did not move the curve, you retraced it.* What causes inflation? What are **demand pull** and **cost push inflation**? The book goes into more detail in Chapter 11 on the next exam. **For this exam only, draw the SRAS curve upward sloping. The equilibrium is where SRAS and AD cross. Also, for this exam only, if the LRAS curve moves, the SRAS curve will move the same direction.** (Starting with the first homework after the exam, you will have a "correct" shape SRAS and you need to give the real

reason the SRAS curve moves.)

Non-graded Homework #7A to be reviewed Homework #7

- 1) (20 points) Even though DOGE claims to have cut \$105 billion, their own receipts wall shows only \$19.8 billion (and with past postings, it has shown that a lot of the posted savings in not savings). No matter which is accurate, the government is not spending as much. Draw the SRAS/LRAS/AD diagram. Illustrate the effects of these cuts on the economy. Explain why the curve(s) moved as drawn. What happens to the price level, GDP, and unemployment? (For how the claimed \$105 billion is \$19.8 billion see: <https://www.yahoo.com/news/elon-musk-and-doge-promised-up-to-2-trillion-in-government-savings-how-much-have-they-actually-saved-so-far-201718142.html> For seeing about the misrepresentation see: <https://www.azcentral.com/story/news/politics/arizona/2025/03/05/how-much-has-doge-saved-so-far/81360500007/>)
- 2) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in the MPC. Explain why the curve(s) moved as drawn. What happens to the price level, GDP, and unemployment?
- 3) (20 points) Draw the SRAS/LRAS/AD diagram. When we place import tariffs, it increases the costs of production of products which use imported parts. Illustrate the effects of the increase in the tariffs which President Trump imposed. Explain why the curve(s) moved as drawn. What happens to the price level, GDP, and unemployment?
- 4) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in the population. Explain why the curve(s) moved as drawn. What happens to the price level, GDP, and unemployment?
- 5) (10 points) Why does the AD curve look as drawn?
- 6) (10 points) Why does the LRAS curve look as drawn?