

Review for Chapter 1 – Chapter 6.

Chapter 1:

- the real cost: dollar cost + opportunity cost (know how to calculate the real cost, opportunity cost)
- opportunity cost (definition, how to calculate)
- graphs: the origin (what is it?); negative and positive slopes (definition, how to determine slopes); a ray through the origin (definition); production indifference map (how to draw)

Chapter 3:

- production possibilities frontier (PPF); attainable points, unattainable points; efficient points, not efficient points
- the shape of the PPF (when it is a straight line, when it is a curved line, know how to draw);

Chapter 4:

- the demand-supply analysis for a single good
- the demand curve (the slope of a demand curve, why is it negative?); factors that shift the demand curve
- the supply curve (the slope of a supply curve, why is it positive?); factors that shift the supply curve
- the equilibrium point (the definition in terms of quantity demanded and quantity supplied); the equilibrium price; the equilibrium quantity
- changes in the position of the equilibrium point due to a shift of a curve: what happens to the equilibrium price and the equilibrium quantity
- numerical example for the demand and supply curves, finding the equilibrium quantity and the equilibrium price without a graph, finding a shortage or a surplus without a graph

Chapter 5:

- the Aggregate Demand curve, its slope, what does it represent?
- the Aggregate Supply curve, its slope, what does it represent?
- aggregate product: GDP (definition)
- aggregate consumer
- aggregate producer
- general or average price level
- the economy's growth path
- what do we include in GDP? What do we not include in GDP?
- government stabilization policies

Chapter 6:

- potential GDP (definition)
- actual GDP (definition)
- labor productivity (how to calculate?)
- growth rate of potential GDP (three factors that affect the growth rate)
- GDP per capita (formula)
- actual GDP and potential: short-run, long-run;
- types of unemployment (definition)

- the employed (definition)
- the unemployed (definition)
- unemployment rate (formula)
- civilian labor force (what is it? how to calculate)
- purchasing power of money (what is it?)
- nominal wage
- real wage
- difference between the nominal and real wages
- pure and real inflation
- relative prices (what is it? how to calculate?)
- real interest rate
- nominal interest rate, expected inflation; cases when borrowers gain and lenders gain from inflation
- measures of inflation (CPI, PPI, GDP deflator: what are those?)
- index number (how to calculate, what does it mean? the use of an index number)
- nominal versus real variables (know how to convert a nominal variable into a real variable)

**ALL THE QUESTIONS FROM HW1 AND HW2 WILL BE
ON THE EXAM**

MAKE SURE YOU KNOW HOW TO DO THOSE QUESTIONS