

Review for Chapter 7 – Chapter 11.

Chapter 7:

- productivity levels for different countries (developed versus developing countries)
- growth rate of productivity (developed versus developing countries)
- the convergence hypothesis
- constantly innovating (developed countries) versus constantly imitating (developing countries)

Chapter 8:

- Aggregate Demand as the sum of C, I, G, and (X-IM): know all components, what they represent
- the diagram that shows how all different types of consumers interact, how C, I, G, and (X-IM) work together
- the national income identity
- Disposable Income (how to calculate)
- the consumption function, its slope (MPC), how to calculate the slope (the formula)
- shifting of the Consumption Function versus moving along the function (know all the factors that shift the Consumption Function)
- I as a component of AD, factors that affect I
- G as a component of AD, factors that affect G
- Net Exports, factor that affect (X-IM), (look up HW3)

Chapter 9:

- total output=total expenditure
- what happens to an economy when $Y < C + I + G + (X-IM)$
- what happens to an economy when $Y > C + I + G + (X-IM)$
- the income-expenditure diagram (how to draw)
- derivation of the Aggregate Demand curve (two graphs, the income-expenditure diagram and the AD graph)
- potential GDP
- a recessionary gap
- an inflationary (expansionary) gap
- the multiplier effect
- formula for the multiplier

Chapter 10:

- Aggregate Supply curve and factors that can shift the curve
- AD-AS diagram, the equilibrium, shortage versus surplus of the aggregate good
- producers fixing a recessionary gap
- producers fixing an inflationary gap
- stagflation (what is it? when does it happen?)
- inflation and the multiplier effect

Chapter 11:

- fiscal policy (what is it?)
- tools of the government (taxes, transfer payments, G)
- variable taxes versus fixed taxes
- shifts of the Consumption Function with a decrease or an increase in fixed taxes
- change in the slope of the Consumption Function due to the presence or absence of variable taxes
- shifts of the Consumption Function with a decrease or an increase in variable taxes
- variable taxes as automatic stabilizer
- expansionary fiscal policy
- contractionary fiscal policy