<u>STUDY GUIDE FOR THE FINAL EXAM</u>

<u>Chapter 5:</u>

- the Aggregate Demand curve, its slope, what does it represent?
- the Aggregate Supply curve, its slope, what does it represent?
- what do we include in GDP? What do we not include in GDP?

<u>Chapter 6:</u>

- potential GDP (definition);
- actual GDP (definition);
- economic situations when: actual GDP > potential GDP (over producing, low unemployment rate), actual GDP < potential GDP (under producing, high unemployment rate);
- all types of unemployment (definitions);
- the employed (definition);
- the unemployed (definition);
- unemployment rate (formula);
- calculating civilian labor force;
- purchasing power of money (what is it?)
- nominal wage;
- real wage;
- pure and real inflation;
- relative prices (what is it? how to calculate?);
- real interest rate;
- nominal interest rate;
- low and high inflation;
- measures of inflation (CPI, PPI, GDP deflators: 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);

<u>Chapter 7:</u>

- 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);

<u>Chapter 8:</u>

- Aggregate Demand as the sum of C, I, G, and (X-IM): know all the 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);

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 gap;
- the multiplier effect, the multiplier in reverse;
- 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?);

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 an automatic stabilizer;
- expansionary fiscal policy;
- contractionary fiscal policy;

Chapter 12:

- measuring the money supply: M1 and M2 monetary aggregates (which assets included in which aggregate);
- liquidity level of assets (liquid versus not liquid assets);
- definition of a bank;
- regulation of a bank (deposit insurance, FDIC; bank supervision, reserve requirements);
- banks assets (what are those?);
- banks liabilities (what are those?);
- required reserve ratio (what is it?);
- required reserves, excess reserves (how to calculate?);
- the multiplier for the money supply (the formula, explanation, how to calculate);
- creation of the money supply;
- contraction of the money supply;

Chapter 13:

- monetary policy (what is it: who does what?);
- open market operations (buying/selling T-bills);
- the discount rate (how the Fed uses it to affect the money supply);
- reserve requirements (how the Fed uses it to affect the money supply);

- which instrument is the most popular with the Fed and why?
- price of bonds and interest rate (the relationship between them);
- the money market (the demand and supply for money);
- shifting of the Supply curve for money as the Fed buys or sells T-bills;
- contractionary monetary policy;
- expansionary monetary policy;

Chapter 14:

- Keynesian theory
- the quantity theory of money, the equation of exchange;
- velocity;
- monetarists and their ideas;
- likeness between the three theories; differences between the three theories;
- monetary versus fiscal policy: which one is quicker;
- what is "targeting" from the Feds point of view?
- how the slope of the AS affects the policies outcomes;

Chapter 15:

- budget deficit (how to calculate);
- budget surplus (how to calculate);
- budget deficit and national debt (how to calculate);
- the graph that represents balanced budget/budget surplus/budget deficit;
- what happens to the graph if the government increases/decreases tax rates or government expenditure;

Chapter 16:

- Phillips curve; historical shifting of the curve;
- long-run Phillips curve (possibility of sustaining any point along it);
- short-run Phillips curve (possibility of sustaining any point along it);
- inflationary gap and Phillips curve;
- expansionary gap and Phillips curve;

Chapter 17:

- three reasons for engaging in trade;
- comparative advantage versus absolute advantage;
- the equilibrium price and quantity for two trading countries (how to find it);
- conditions to satisfy the equilibrium price;
- a tariff on imports;
- a quota on imports;
- what tariffs do to the equilibrium price and quantity;
- what quotas do to the equilibrium price and quantity;

KNOW HOW TO DO ALL THE QUESTIONS FROM ALL THE HOME WORKS

FINAL EXAM – DECEMBER 15TH