

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 workbook.

The optional review session for this test will be Thursday 10/17 at 6:00 in 108 Old Main.

Much to my surprise, there are not really any graphs. What is an economics exam without graphs? Can it really be an economics exam?

Chapter 6: What are Medicare and Social Security? What are the effects of them on the economy? What is the problem with Social Security? What are some of the proposals for solving the problem? I am likely to not ask you something like on the homework. Rather I am more likely to give you a proposal for a solution and ask you how it would work, and whether or not you would do that.

Chapter 7: What are, and how do we calculate, the unemployment rate, labor force participation rate, and inflation rate? What are stocks and flows? How do they relate to unemployment rates? Be able to classify people by the reason they are unemployed, i.e., laid off. . . . Be able to tell who is in which category of unemployment, i.e., frictional. . . . Note that we normally do not classify people as frictional until they have been unemployed for a long time. What are the other costs of unemployment besides lowered production? How do we calculate CPI, PPI, and GDP deflator? Why are they biased upwards? Why does it matter if inflation is anticipated or unanticipated? What are the costs of them? I added shoe-leather cost. Note that if inflation is expected to be 10% and it ends up being 7%, we had unexpected deflation of 3% and that hurts borrowers. Know what an expansion (a.k.a. boom), contraction, recession, depression, trough, and peak are. What is a leading indicator?

Chapter 8: What is the simple circular flow? What do we mean by product markets and factor markets? Know what is calculated in GDP and what is not. That method is the expenditure method (C+I+G+X). Remember that X can be negative and you are likely to get the definition of I wrong. Stocks and bonds are not investments. Why should that equal the sum of the value added and the sum of incomes? What are some problems with it? Ignore GDI because they state it is the same as GDP, just calculated differently. Know how to get from GDP to GNP, NI, PI, and DPI. Note that if you know what those terms are trying to measure, you ought to be able to figure out what is added and what is subtracted. What is the difference between real and nominal? How do we compare GDP across countries?

Chapter 9: What is economic growth? What is the problem of using that as a measure of welfare? What causes GDP per capita to grow? What are the problems with growth? What is labor productivity and what changes it? Why is saving so important to growth? What are the advantages and disadvantages of patents? Why do open economies grow faster? How does population growth affect development? The four keys to development on pages 212 and 213 will help you to understand parts of the chapter.

Nongraded assignment #4A, to be gone over on 10/16 when assignment #4 is handed back.

- 1) (20 points) Why is the establishment of a system of property rights important for economic growth?
- 2) (20 points) In this area, it is clear what the disadvantages of “creative destruction” are. What are the advantages of it?
- 3) (20 points) Some of the drug companies are pushing to get the patents on drugs to last longer. Also, companies like Disney succeeded in getting the government to extend the length of time that copyrights on intellectual rights like books and movies last. (That was taken to court and recently there was an article about it going to the supreme court.) Do you think that the government should extend patents? Why or why not? I just want you to concentrate on patents and ignore intellectual property.
- 4) (20 points) Why is saving so important to economic growth? Make sure you explain what causes economic growth and what how savings helps that.
- 5) (20 points) We generally say that economic growth is good. What are two problems that are caused by it?