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 Sunday, 12/2, at a time to be determined in class, unless the class chooses a different day. It will probably not be in Morlan 101 because of tutoring.

Chapter 12:
What is fiscal policy? What is a *public good*? Why should the government provide it? What are the differences between *current* and *recurrent* expenditures? Why do they matter? How do wages, salaries, capital goods, maintenance, military spending, interest payments, subsidies, state-owned enterprises (SOEs), and intergovernmental transfers affect the budget? Note that they vary greatly ins size between countries, but each type of spending has its own unique properties. What is meant by tax capacity? What are the advantages and disadvantages of the following types of taxes: taxes on international trade, personal & corporate income taxes, and sales & excise taxes (including VATs)? What is the problem with raising taxes too high? What other sources of taxes might be available? How can changes in tax administration and/or tax reform help the government to collect more money? How do taxes affect saving, investment, income redistribution, and equity? Why might taxes be inefficiently collected?

Chapter 13:
What this book calls *financial policy*, most books call *monetary policy*. Know the three functions of money (medium of exchange, unit of account, and store wealth.) Know what is in M1, M2, and M3 in general. What is meant by the *financial ratio*. Why is it important? Why do we use financial intermediaries? What are the different types of inflation? What causes them? Be able to calculate the inflation tax using $t=\pi(1+\pi)$. What is meant by the inflation tax? Disregard the section on inflation as a stimulus to investment. Understand why we calculate the real interest rate as in equation 13-6. Note, we used π instead of p. Disregard equation 13-7 and the paragraphs discussing it. What are shallow finance and financial deepening? What are the earmarks of both? Why is the latter preferred and how can we achieve it? What are financial panics? What is *moral hazard* and how does it relate to financial intermediation? What can regulation do to prevent panics and reduce the financial problems of banks? What are the differences between floating and fixed (pegged) exchange rates? How do *reserve requirements* affect the money supply? How do *credit ceilings* work? How do *interest-rate regulation* and *moral suasion* affect the money supply?

Chapter 14:
What is *foreign aid*? What is the difference between *concessional* and *non-concessional assistance*? What are ODA, OA, and private voluntary assistance? What are multi-lateral aid, IMF and World Bank? Why are the seven items on page 527 important for helping other countries develop? Why do governments give aid for foreign policy, to fight poverty, to small countries, commercial ties, and to help democracies? Understand the reasons why some people feel that aid is good for the economy, while others think it has little or no effect, and others feel it depends upon certain circumstances. What is the *principal-agent problem* and how does it relate to the IMF? What can be done to improve the effectiveness of aid?

This is the non-graded Assignment #9A that will be reviewed with Assignment #9.

1) (20 points) Of the arguments which say that foreign aid is helpful is the strongest? Why do you feel that?

2) (20 points) If a developed country is committed to helping poor countries develop, what type of trade policy

should they have? Why is that a requirement?

3) (15 points) Why do some economists feel that emergency aid does not help development?

4) (25 points) The IMF puts conditions of loans. What type of conditions do they put? Are they a good idea?

5) (10 points each) For each item below, explain how that influences ODA and/or OA?
A) Foreign policy
B) Small country

Final Exam Review

The final will be comprehensive and will come evenly from all material covered. Below is the material after the last exam. The time and place of the review session will be determined.

Chapter 15:
What are the advantages and disadvantages of foreign borrowing? For the six debt indicators on page 569, understand why those would indicate too large of a debt. What is the difference between insolvent and illiquid? Understand the equations on page 571 and how they relate to the issue, especially 15-1 and 15-4. What can cause a debt crisis? What is the impact upon the country of the crises? How can they get out of the problem? What are the pluses and minuses of the proposals on pages 578 and 579? How can short-term capital flows affect the crises? What is a creditor panic? What causes it? What can be done about it?

Questions based on Chapter 15

1) (15 points each) For each of the following, explain why that would indicate too large of a debt.
A) Debt/revenue > 140%
B) Short-term foreign debt/foreign exchange reserves >1:1.

2) (25 points) Some people think that the developed countries should reduce the debt of developing countries. What are the good and bad aspects of doing that?

3) (20 points) Why might letting the credit panic run its course be the best policy?

4) (25 points) Jagdish Bagwati says that developing countries should be more open for trade of goods, but should not be more open for trade of financial assets. Explain why both of these statements may be the best policy for a developing country.