

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 at a time to be determined in class, probably Thursday 9/30 in the normal room.

Chapter 4: What is a price system? Ignore voluntary exchange, transaction costs, and terms of exchange. Like most things we skip in these early chapters, they are important for microeconomics but not for macroeconomics. Be able to show movements of supply and demand on the same diagram. If you do not draw both supply and demand, then I will take off points. Also, label all axes and lines. How do we ration goods? What are other methods of rationing? What are the economic effects of price ceilings, price floors, taxes, and quotas? Be able to show them on the supply and demand graph. Use the graphs to explain the problems they cause, how those problems are solved without government action, and what the government can do to relieve those problems.

Chapter 5: What are negative externalities and positive externalities? How are they seen on the graph? What is the best way to offset them? Show that on the supply and demand diagram. Know the economic reasons for *providing a legal system, promoting competition, providing public goods, and income redistribution*. What is the difference between voting and spending?

Chapter 6: How do we calculate *marginal tax rate, average tax rate, and total taxes paid*? What is meant by proportional, progressive, and regressive taxes? What is the tax base? How can increasing a tax result in less revenue? What are sales, excise, ad valorem, specific (unit) taxes? What is the Laffer Curve? The book actually draws it in Chapter 13. What are Medicare and Social Security? What are their effects on the economy? What is the problem with Social Security? What are some of the proposals for solving the problem? What are the pluses and minus of using each “solution”? I am most likely to give you a proposal for a solution and ask you how it would work, and whether or not you would implement my proposal.

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? Know how to classify people by the reason they are unemployed, i.e., laid off, job leaver, etc. Know how to tell who is in which category of unemployment, i.e., frictional, structural, seasonal, and cyclical. What is the natural rate of unemployment and full employment? How do discouraged workers complicate the unemployment picture? What are the other costs of unemployment besides lowered production? How do we calculate CPI, PPI, PCE Index and GDP deflator. I won't ask you to do the calculation, but you may have to describe how it is done. Know how to calculate inflation from those numbers. Why does it matter if inflation is anticipated or unanticipated? What are the costs of unanticipated and anticipated inflation? (I added shoe leather costs.) 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?

Non-graded Homework Assignment #4A to be reviewed with Assignment #4.

1) (15 points each) For each of the following events, what happens to the unemployment rate and the labor force participation rate? Which part of the unemployment rate is affected, if the unemployment rate changes. Explain your logic for all parts.
A) A senior graduates without a job. B) A steel worker in Weirton is laid off. C) A person is depressed by the economy so quits looking for a job.

2) (20 points) Explain why fully expected inflation is not an economic problem. What is the problem with fully anticipated inflation?

3) (15 points) Suppose an economy has 1000 working age people. 600 people have jobs, 10 people do not have jobs and are looking for a job, 1 person does not have a job but has quit looking for a job, and the rest are either stay at home parents, in jail, or unable to work. Calculate the unemployment rate and the labor force participation rate. Show all work and briefly describe what you did.

4) (20 points) If the CPI last year was 400 and this year was 420, then what was the inflation rate? Show all work and briefly explain what you did. If people had expected inflation of 6%, then who is hurt? Explain your logic.