

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.

Chapter 11: What are **fiscal and monetary policies**? 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 in 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 12: What is meant by the **financial system**? How does it relate to **monetary policy**? What are **micro-credit institutions**? What are the **three uses of money**? What is *M1*, and what are the differences between **M1, M2, and M3**? What is meant by **financial intermediation**? How does it affect risk and stabilize the economy when working correctly? What are the problems with **inflation**? In general, what are the differences between **chronic inflation, acute inflation, and hyperinflation**? What are the effects of them? What is meant by **fixed (pegged) exchange rate, adjustable peg, crawling peg, managed (dirty) float, wide band system, and clean float**? What are the advantages and disadvantages of each? What are **international reserves**? Understand why  $M = DR + IR$ . Use it to explain why having a fixed exchange rate causes the central bank to lose control over the money supply. What are the **four tools** the central bank can use to control the money supply. (**Moral suasion** is not in my macroeconomics textbooks because it is ineffective.) How can **credit ceilings** be used to affect the inflation rate? What is meant by **shallow finance** and **financial deepening**? How do the following cause shallow finance: low real interest rates, restrictions on entry to the financial market, and high required reserves? What are **informal credit markets** and **micro-finance**?

Chapter 13 (old 15): What is the difference between **illiquid** and **insolvent**? What are the advantages and disadvantages of foreign borrowing? For the **six debt indicators on Page 461**, understand why those would indicate too large of a debt, either illiquidity or insolvency and either a **debt service problem, external transfer problem, or internal transfer problem**. Understand the equations on Pages 462 - 463 and how they relate to the issue, especially 13-2 and 13-4. What is meant by **debt overhang**? 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 471 and 472**? How can short-term capital flows affect the crises? What is meant by **defensive lending** and **completion point**? Why do they matter? How do short-term loans help the problem? What is a **creditor panic**? What causes it? What can be done about it? What are the advantages and disadvantages of the **solutions on Pages 489-490**? How does **moral hazard** relate to the situations?