

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's time will be announced, probably on 4/2.

About half of the material is from the three labs, so about half of the points will be from them.

For the laboratories, be able to run regressions. Understand what **Adjusted  $R^2$ , Significance of F, coefficient, T-statistic, P-value, upper and lower 95%** mean. What are good values for those numbers? Be able to know when to eliminate a variable from a regression based upon those statistics. Know how to run a regression based on time. Be able to use those results to write an equation which will predict your  $Y$  variable. Be able to check for **multi-collinearity** using the correlation coefficients with a cutoff of 0.80, check for **auto-correlation** and **heteroscedasticity** using the residual plots. For the former two, be able to do the simple corrections of eliminating a variable and using a squared term or  $\ln$  respectively. *Note that if you use  $\ln$ , you must do  $\ln$  for all variables.* Know the formal test for heteroscedasticity using the **F-distribution**.

Chapter 11: Explain how **fixed markup** can cause price rigidity. For the latter, explain why a fixed markup may make economic sense. The **effective labor demand curve** because it is just an inverted production function. How do monetary and **fiscal policies** affect the IS/LM/FE and SRAS/LRAS/AD diagrams? For the explanation of the IS curve movements, you can use the ones in the book, but the comparing it to the AD diagram is mathematically equivalent and easier to understand, especially in this chapter. What causes the business cycle in the **Neo-Keynesian view**? Why might this require government intervention? What is the **liquidity trap** and why does that mean monetary policy cannot work? How do supply shocks affect the economy?

Chapter 12: Understand the theory using the LRAS/SRAS/AD diagram which would result in a nice **Short-Run Phillips Curve (SRPC)**. Understand what moves the **Augmented SRPC** and the **LRPC**. Note that the intersection point is only the point where we will be if we are at full employment. Therefore, if we do not have  $\pi = \pi^e$ , then the economy will not be at that point. The point the economy is at depends upon the relationship between  $\pi$  and  $\pi^e$ . What are the costs of unemployment? Understand both the **cultural and the hysteresis** explanations of what determines the natural rate of unemployment. The latter is the **insider-outsider model**. What can be done to reduce the natural rate of unemployment? What are the problems with **anticipated inflation, unanticipated inflation, and hyperinflation**? How can inflation be fought? What are the advantages and disadvantages of **cold turkey** versus **gradualism**? Why aren't **wage and price controls** a good idea? How can **tax-based income policies (TIP)** help reduce inflation? Why might they make the problem worse?

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This is the non-graded Assignment #8A that will be gone over with Assignment #8.

Given the fact that you have had two labs close together and no class of new material from the book during that time, you have been asked all the topics. So, there is nothing here.