

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 probably be Thursday, 4/22, at 7:00, in the normal room.

The review session for the first half of the final will be on Thursday, 4/29 at a time and place to be announced.

The second half of the final will be Monday 5/3 at 10:00 AM.

There will be a question which will require you to explain one of two equations.

Chapter 10: What are the balance of payments, current account, and capital account? Why should they normally add to zero? How can we tell if a currency is appreciating, depreciating, revaluing, or devaluing? What is purchasing-power parity (PPP)? Why should it hold? Why doesn't it hold? How does it affect the supply and demand for currency on the foreign exchange market? How do interest rates affect the supply and demand for currency on the foreign exchange market? Why are imports a function of GDP? How does that affect the IS curve, the Keynesian cross diagram, and the autonomous expenditure multiplier? Do not worry about figures 10-9 and 10-12 because they build on things we already ignored. Why does the BP curve slope up? What happens if we are off of it? What moves it? Ignore figure 10-13 because it confuses the issue and because panel C is clearly wrong. How do exchange rate changes affect the IS/LM/BP diagram? Be able to show monetary and fiscal policy on the IS/LM/BP diagram. For this whole course, we are assuming that there is a **fixed** exchange rate. (Flexible exchange rates are in Economics 365.) The LM will move when off of the BP curve because money is leaving or entering the economy with a balance of payments deficit or surplus respectively. Changes in the money supply move the LM curve.

Chapter 12: What is inflation? Why is it a problem? What is not a problem with it? What are bracket creep, COLAs, unexpected inflation, unexpected deflation, shoe-leather cost, and menu cost? What are demand pull and cost push inflation? How does the productivity of labor affect the inflation rate? What is the Phillips curve and why does it take that shape? When does it move? Why does the long-run Phillips curve take its shape?

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

- 1) (15 points) Suppose that people expected the inflation rate to be 7% and it was actually 5%. Who would be hurt and who would gain from the wrong estimation? Explain your logic.
- 2) (25 points) Why is an expected inflation of little cost to society? What are the costs to society of it? Explain your logic.
- 3) (30 points) Illustrate an increase in government spending on both the SRAS/LRAS/AD diagram and the Phillips Curve diagram. Explain the movement(s) of the curve(s).
- 4) (30 points) Illustrate an expected increase in inflation on both the SRAS/LRAS/AD diagram and the Phillips Curve diagram. Explain the movement(s) of the curve(s).

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Review sheet for the final.

The final will be in two parts. The two parts of the final will be in the reversed order from last spring. The second half of the final will be just like the first half of the final for the last semester. It will be the same except you will have different numbers. If I were you, I would use a Keynesian, but not extreme Keynesian, approach to solve the problem because it is easier to solve problems in a Keynesian world. (That does not mean that Keynes is right, just easier to deal with.)

The first part of the final will be held the last day of class. It will cover the material that is not directly covered by the second half of the final. For example, I will not ask you to show an increase in the money supply on the IS/LM diagram. Anything on any review sheet that is not explicitly covered in part 2 of the final is fair game. For example, question #1 above, could be on the first half of the final, but question #3 will not be in part 1 of the final.

When I write the final, I look to see what I did not ask about, and what were the major topics. I write questions about those topics. (Obviously, opportunity costs and supply/demand will be on the first half of the final.) I try to get the questions evenly distributed from all the tests. However, the second half of the final covers most of chapters like chapter 12, but very little of chapter 3. Therefore, little of chapter 12 will be on the first part of the final, and chapter 3 is likely to be on it.