

THINGS TO KNOW FOR THE FINAL EXAM

FINAL EXAM INSTRUCTIONS:

On-line Final Exam on Aplia:

Posted by noon on May 16

Due by 12:15PM (fifteen minutes after noon) on May 19

One attempt per question; 180 minutes (3 hours) to complete exam. Clock starts ticking when you begin exam - no logging off and logging back in.

Some Things to Know for Exam 1

Microeconomics vs. Macroeconomics

Opportunity cost

Definition

Example

Production Possibilities Frontier (PPF)

Factors that can shift the PPF

Model of Supply and Demand

Demand

Definition

Factors that can shift the demand curve

Supply

Definition

Factors that can shift the supply curve

Equilibrium Price and Equilibrium Quantity

Definition

Factors that can alter the equilibrium price and quantity

“Markets in Action”

Elements of Macroeconomics

Gross Domestic Product (GDP)

Unemployment Rate and other measures of labor market underutilization

Price level and inflation

Circular Flow

Fiscal policy

Definition

Examples

Who's in charge of

Policy tools

What to do if you fear a unemployment

Based on actual policy choices, what do Pres. Obama and Congress fear more right now – inflation or unemployment? Be able to briefly justify your answer.

Monetary policy

Definition

Examples

Who's in charge of

Policy tools

What to do if you fear a unemployment

What to do if you fear inflation

Based on actual policy choices, what do Chairman Ben Bernanke and members of the Federal Open Market Committee fear more right now – inflation or unemployment? Be able to briefly justify your answer.

Macroeconomic Model

Definition of GDP

Different approaches to computing GDP

Income approach

Expenditure approach

Value-added approach

Macroeconomic model based on expenditure approach (Aggregate Expenditures – AE Curve)

Macroeconomic Concepts

Gross Domestic Product

Unemployment

Price Level and Inflation

Circular Flow Diagram

Two-sector macroeconomic model (consumer sector + investor sector)

Three-sector macroeconomic model (consumer sector + investor sector + government sector)

Four-sector macroeconomic model (consumer sector + investor sector + government sector + “rest-of-the-world” sector)

Marginal propensity to consume (mpc)

Marginal propensity to save (mps)

Mechanisms of Monetary Policy

Open Market Operations (OMOs)

Definition

Types

Effects on money supply

Discount rate

FOMC

Effects of changes in discount rate on money supply

Money Supply and Money Demand – FED cares about both – but one more than the other. Which? Why?

Structure of GDP/US Economy

Components of spending

Which is largest?

Which is most volatile?

What specific variables are important in influencing each component of spending?

Explain why and explain the implications.

Things to Know Since the Last Exam

Open Economy Macroeconomic Model: $Y=C+I+G+(X-M)$

Factors that determine imports

Factors that determine exports

Balance of payments – deficit or surplus?

What countries have a deficit and what countries have a surplus?

Exchange rates

Purchasing power parity theory

Effect of relative interest rates on exchange rates

Appreciation of a currency

Depreciation of a currency

What effect does appreciation or depreciation of a currency have on the balance of payments?