EC 202 Study Guide Outline

This is meant as a rough outline for EC 202 and does not cover all the material in the course.

5. GDP and the Measurement of Progress

a. GDP
   i. How is it measured
   ii. How can we measure it (income v. spending approach)
   iii. Why do we care about GDP? Or even, why do we look at GDP per capita?

b. Calculating growth rates

c. Real v. Nominal Variables

6. The Wealth of Nations and Economic Growth

a. Formula for compounding growth rates

b. The rule of 70

c. Factors of production
   i. Physical Capital
   ii. Human Capital
   iii. Technical Knowledge
   iv. Labor
   v. Natural Resources

d. How institutions in an economy offer incentives to growth

7. Growth, Capital Accumulation, and the Economics of Ideas: Catching Up vs. the Cutting Edge (Solow Model)

a. Production function with our factors of production

b. What is diminishing marginal product of capital

c. Be able to graph all the curves and understand what each of them means

d. Be able to solve for a steady-state value of capital or output

e. Understand how capital accumulation increases output

f. Absolute v. Conditional Convergence

10. Unemployment and Labor Force Participation

a. How is one classified as employed? Unemployed?

b. What makes up the labor force

c. Frictional v. Structural v. Cyclical Unemployment

d. Natural Rate of Unemployment

11. Inflation and the Quantity Theory of Money

a. What is inflation and how can we calculate it?

b. Converting a real variable to a nominal variable and vice versa

c. How inflation can hurt/help a lender/borrower

d. Quantity Theory of Money

   i. Y*P=M*v

   ii. Relationship of price level and money supply

12. Business Fluctuations and the Dynamic Aggregate Demand – Aggregate Supply Model

a. Be able to sketch out the graph and understand all the curves

   i. Solow Growth Curve is the real output growth rate we derive from our Solow Model

   ii. Aggregate Demand is derived from our quantity theory of money equation, but instead we hold M and v fixed (the nominal spending growth rate)

   iii. Aggregate Supply comes from sticky prices and the expectation of inflation

b. Know what will affect the curves and in what direction

   i. Solow is affected by changes in our factors of production

   ii. Aggregate Demand is affected by changes to our nominal spending growth rate (M or v, also think about GDP equation in nominal terms of C+I+G+EX-IM)

   iii. Aggregate Supply is affected by changes in expectations of inflation or whenever the Solow moves unexpectedly

c. Be able to understand what happens from the short run to the long run

d. Real Business Cycle (only AD-Solow) v. New Keynesian Model

e. What are sticky wages and prices and why do they matter

13. The Real Business Cycle Model: Shocks and Transmission Mechanisms

a. What are shocks
    i. Expected/Unexpected
    ii. Temporary/Permanent
    iii. Real/Nominal
    iv. Positive/Negative
b. How do transmission mechanisms increase or decrease a shock
c. What are examples of transmission mechanisms

8. Saving, Investment, and the Financial System

a. Market of Loanable Funds
    i. Who supplies?
    ii. Who demands?
b. Difference between saving and investment
c. Consumption smoothing
d. Financial Institutions
    i. What functions do they serve
    ii. How do these institutions generate revenue
e. Be able to determine the price of a bond, its face value, and the rate of return
f. What factors will affect demand and supply of loanable funds
g. Why does arbitrage matter

14. The Federal Reserve System and Open Market Operations

a. Functions of Money
b. Why was the Fed created
c. What does the Fed do
d. Formula for money supply based on required reserve ratio
e. What tools does the Fed have to affect monetary policy

15. Monetary Policy

a. What does monetary policy relate to

b. What are the dynamics of monetary policy in action from short run to long run

c. When is monetary policy a bad idea

d. Commitment v. Discretion

16. The Federal Budget: Taxes and Spending

a. Average tax rate v. Marginal tax rate

b. Know all the different types of tax rates and how to calculate how much tax is owed in each case

   i. Progressive

   ii. Flat

   iii. Regressive

c. Income v. Substitution Effect

d. Social Security

e. Stock v. Flow

17. Fiscal Policy

a. What does fiscal policy relate to

b. What are the tools of fiscal policy

c. Know the dynamics of fiscal policy going from short run to long run

d. Fiscal Multiplier

   i. What determines the effect

   ii. What is the formula

e. Government crowding out

f. Ricardian Equivalence

g. Automatic Stabilizers

h. How does fiscal policy differ from monetary policy

18. International Trade

a. What is an opportunity cost and how do we calculate it

b. Absolute v. Comparative Advantage

c. Who benefits from trade

d. Be able to calculate government revenue from tariffs

19. Exchange Rates and Purchasing Power Parity

a. Be able to convert one currency into another

b. What influences supply and demand for foreign exchange markets

c. Floating v. Fixed Exchange Rates

d. What is Purchasing Power Parity