Chapter 11: Definition of GDP, National Income Accounts: (two ways of counting GDP: Expenditures and Income), Aggregate Expenditures = C + I + G + NX (= GDP), What is NOT in GDP? Underground economy, Leisure, quality, variety. Aggregate Income = wages, rent, interest, and profit (plus depreciation) (=GDP) Personal Income (Aggregate Income) = Disposable Income + Net Taxes Disposable Income = Consumption + Saving. GDP chain price index, Real GDP vs Nominal GDP, Circular Flow model

Chapter 12: The business cycle (expansion, contraction, recession, peak), Economic Growth (we calculated Growth Rates in class and on the homework, be ready to calculate one on the final exam), Federal Budget Deficit versus the Federal Debt, stagflation

Definitions: Civilian Labor Force, Unemployment Rate, discouraged workers,

Know definitions of the 4 types of unemployment: Frictional, Structural, Seasonal, and Cyclical – what is the goal Full Employment for an economist? (Remember it is the natural rate of unemployment, around 5% NOT 0% - KEY, note that we are at 4.6% today – below that!! May be on the exam! HINT!)

Chapter 13: **Price Indexes** – base year is what value? The CPI – how is it computed? Inflation? You will calculate an inflation rate on the final exam. Be able to list the 3 criticisms of the CPI on the final: Typical, quality, and substitution bias. Know how to calculate the real wage or real income and real wealth using the CPI (p. 284)

Definitions: Deflation, disinflation, hyperinflation, what’s a COLA? Real versus Nominal interest rate, demand pull versus cost push inflation, wage price spiral

Chapter 14: Aggregate Demand: 3 reasons for the downward slope: Real Balances Effect, Interest Rate Effect and Net Exports Effect – Be able to follow the causation chain (MC question); shifts in the AD curve: C, I, G, NX.

Aggregate Supply: Keynesian View versus Classical View – “Do something” versus “Leave it Alone” … The economy needs a “boost” versus allow the economy to self-adjust. … Keynesian range of AS – boosting demand will increase Real GDP versus Classical range of AS – increasing AD only causes inflation, no change in real GDP … Note pp. 302-307 these demand effects

Shifts in AS: Resource prices, Technological change (“Fracking” for example)

Stagflation – definition and demand-pull, cost-push inflation revisited.

Chapter 15: Fiscal Policy: discretionary to combat recession (Leave the multipliers alone – not on the exam!)… Automatic Stabilizers: unemployment compensation, transfer payments

Budget surplus and budget deficit, what is the U.S. accumulated deficits today (the debt, from our Paper #2).

Supply-side fiscal policy to achieve long-term growth – notice the difference between supply-side and Keynesian demand side tax cut policies. No worries about the Laffer curve (not on the homework or the final).

Chapter 18: 3 functions of money, Credit card – a pre-approved loan, not part of money but of loans, Commodity versus fiat money, Money – definition, M1 and M2, The Fed: List what the Fed does (p. 408-10), **The FOMC does what? Who are they?** What are open market operations? Where is Flagstaff’s Fed District Bank? Deposit insurance (FDIC) Twin Mandate of the Fed – Unemployment and Inflation

Chapter 19: Money Creation: Reserves are what? Required versus Excess? How do banks create money – Money multiplier, a balance sheet of a representative bank. 3 tools of the Fed – discount rate, reserve requirements, and open market operations – how do Open Market Operations work? p. 424-6, Fed Funds market p. 427. Lags in fiscal and monetary policy. **Banks:** Two types of Bank failure – illiquidity (no cash) and insolvency (A<L)

Chapter 20: The Demand for Money: 3 reasons (Transactions demand, precautionary demand, and speculative demand) – downward sloped to interest rate. Money supply is the amount the Fed supplies (period). See the relationship between excess money and bond prices/interest rates (p. 438-9) The “Transmission Mechanism” – that is, the way monetary policy affects AD and prices/real GDP through interest rates and Investment (p. 440) The Equation of Exchange: MV = PQ – Long Run (Velocity constant hypothesis)

Misc stuff: Fed’s inflation goal is 2% “core” PCE inflation

Hyperinflation – including a country currently experiencing it (Venezuela!)

Federal Budget Constraint: G – T = ∆Bonds + ∆M s

(Gov’t Spending must be paid for by taxes today, tomorrow or an inflation tax)