Final: Key Concepts and Definitions

- GDP
- Per capita vs. aggregate terms
- Relation of income and expenditure in an economy
- Accounting identity
- Value added
- Nominal vs. real variables
- Price level
- Price index
- GDP basket vs. CPI basket
- Inflation rate
- Growth rate
- Exponential growth and its implications
- Catch-up growth vs. sustained growth
- Aggregate production function, its components and properties
- Technological progress
- Malthusian cycle
- Proximate vs. fundamental causes of growth
- Institutions, types and features
- Labor force, employment and unemployment
- Labor market indicators
- Frictional, structural and cyclical unemployment
- Natural unemployment
- Full employment
- Potential GDP, output gap
- Capital vs. financial capital
- Investment and depreciation
- Nominal and real interest rate
- Loanable funds market: demand, supply and equilibrium
- The difference between the quantity demanded/supplied and demand/supply
- What causes shifts in curves and what causes movements along a curve
- The difference between short-run and long-run time spans
- Potential GDP and why it could increase/decrease
- What causes shifts in LAS, SAS, AD, APE curves, and the sequence of these shifts depending on a particular situation

- What shifts in the long-run vs. what shift in the short-run
- Intertemporal substitution effect
- Short-run and long-run macro equilibriums
- What represents economic growth and inflation in the AS-AD model
- Aggregate planned expenditure and its components
- Disposable income and the identities related to it
- Consumption function and characteristics/meanings of its slope and intercept
- Consumption vs. saving
- Induced vs. autonomous consumption
- Induced vs. autonomous expenditure
- The slope in consumption function vs. the slope in the APE function
- Actual vs. planned expenditure
- Equilibrium expenditure
- Keynesian cross
- Expenditure multiplier and its derivation
- The magnitude of the multiplier in the shortest run, short-run, and long-run
- Relation of AE model to AS-AD model and the ability to represent it graphically:
  - sequence of events if the aggregate planned expenditure changes first
  - sequence of events if the price level changes first
- Why is the concept of multiplier important?
- Business cycle and its components (peak, trough, etc.)
- Why should we care about the business cycle?
- Economic growth vs. business cycle
- The business cycle in the AS-AD framework
- Inflation cycles and their relation to the business cycle
- Demand-pull inflation: definition, examples (hypothetical and historical), and its graphical representation
- Cost-push inflation: definition, examples (hypothetical and historical), and its graphical representation
- Stagflation and its causes
- Rational expectation
- Relation of the rational expectation about inflation to the types of inflation
- Definition, functions, and measures (with their components) of money in the U.S.
- Currency
- Deposit
- Liquidity
- Depository institutions: definition, types, and economic benefits
- How do depository institutions make profit

- Fiscal policy
- Federal budget
- Government receipts and outlays, main components of both
- Government surplus/deficit
- Balanced budget
- Government debt
- Effects of fiscal policy on economy
- Labor tax wedge
- Capital income tax wedge
- Laffer curve
- Generational accounting
- Government bond
- Fiscal stimulus, its types
- Structural vs. cyclical surplus/deficit
- The Federal Reserve System, its objectives, structure
- Independence of the Fed from the federal government
- How to become a member of the Fed system, who has to and who don't
- FOMC
- The Fed's balance sheet
- Main assets and liabilities of the Fed
- Monetary base
- Security, government security
- Bond, government bond
- Monetary policy instrument Fed's monetary policy instruments
- Federal Funds Rate
- Open market operation
- Monetary base
- Effects of monetary policy on balance sheets of banks, households and firms
- Required reserve ratio
- Excess reserves
- Demand for bank reserves
- Market for bank reserves and graphs related to it
- Expansionary/easy monetary policy
- Contractionary/tight monetary policy
- Taylor rule

- Zero Lower Bound
- Forward guidance
- Quantitative easing
- Systemic risk
- meaning of “Too Big To Fail”

Formulas

Accounting identity:	$Y = C + I + G + NX$
GDP deflator:	$\text{GDP deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \cdot 100$
CPI:	$CPI = \frac{nominal\ basket\ cost}{basket\ cost\ in\ base\ period\ prices} \cdot 100$
Inflation rate (%):	$\pi_t = \frac{PI_t - PI_{t-1}}{PI_{t-1}} \cdot 100$
Nominal to real conversion:	$X^{base}_{current} = X^{N}_{current} \cdot \frac{PI_{base}}{PI_{current}}$
Growth rate of anything (%):	$g_t = \frac{X_t - X_{t-1}}{X_{t-1}} \cdot 100$
Exponential growth of a variable X:	$X_{t+n} = X_t \cdot (1+g)^n$
Unemployment rate (%):	$UR = \frac{unemployed}{labor\ force} \cdot 100$
Employment-to-population ratio (%):	$EPR = \frac{employed}{working\ age\ population} \cdot 100$
Labor force participation rate (%):	$LFPR = \frac{labor\ force}{working\ age\ population} \cdot 100$
Real interest rate (%):	$r = i - \pi$
Aggregate expenditure:	$AE = GDP = Y$
Aggregate planned expenditure:	$APE = C^P + I^P + G^P + MX^P$
Disposable income:	$YD = Y - T$
Saving:	$S = YD - C$
Consumption function:	$C = a + b \cdot YD$
Expenditure multiplier:	$M = \frac{1}{1 - slope\ of\ APE\ curve}$
Government surplus:	$Surplus = receipts - outlays$
Bank's reserves:	$Reserves = vault\ cash + deposits\ at\ the\ Fed$
Monetary base:	Monetary base = Currency + Reserves of depositary institutions
Excess reserves:	Excess reserves = Actual reserves - Required reserves

How to study for the test

1. Make sure you understand all the concepts on page 1.
   NOTE THAT THE MATERIAL ON THE TEST WILL NOT BE LIMITED TO THE CONCEPTS AND DEFINITIONS LISTED ON PAGE 1. HOWEVER, IF YOU KNOW THESE, YOU WILL BE ABLE TO ANSWER THE MAJORITY OF QUESTIONS CORRECTLY.
2. Know formulas on page 2
3. Redo the homework – I compiled all the homeworks into one file which you can find on my website. I recommend printing it out and trying to work on it as you would on the test
4. Redo the quizzes
5. Do a practice test
6. Try to come up with your own examples – this is a very good way to find out whether you truly understand a concept or not
7. Practice graphs

The class slides cover all the concepts you should know for the test. The textbook is there for you to get a better understanding of what is in the slides. If we didn't cover in class something that is in a textbook chapter, you are not responsible for it.