

Econ 4102: Exam 3 Review

Lawrence De Geest

Topics

Lecture 13

- What drove hyperinflation in Venezuela?
- What is macroeconomics?
- Describe three main goals in an economy.
- What are the two ways in which a government can alter an economy?
- What is GDP?
- How do we measure GDP?
- Explain real versus nominal GDP.
- What does GDP *not* capture?
- What is the *business cycle*?
- What is a *recession*?
- What is an *institution* and why are they important to growth?
- Explain *comparative advantage* and *absolute advantage*.
- Why does trade do?

Lecture 14

- What is money and why do we use it?
- Where does money come from (besides printing it)?
- Explain the differences between fiat and commodity money.
- Name the three ways money reduces transaction costs.
- What is “liquidity”?
- What do banks do?
- How do banks reduce transaction costs?
- How do banks go bankrupt?
- What is cryptocurrency?
- How did banks contribute to the 2008-2009 recession?

Lecture 15

- Name four services financial markets provide.
- What is “consumption smoothing”?
- Why are many products in financial markets essentially insurance policies?
- What is a “derivative”?
- What is present value?
- What is compound interest?
- What is a “random walk” and what does it have to do with financial markets?
- What is the *efficient market hypothesis*?

Lecture 16

- What is inflation?
- What causes inflation?
- How do we track the cost of living?
- Describe three consequences to inflation.
- Are there benefits to inflation?
- What is the difference between “real” and “nominal”?
- What is *purchasing power* and why do we care about it?
- What is *deflation*?
- Why does printing more money usually lead to higher prices?

Lecture 17

- What is the labor force?
- Where does short-run unemployment come from?
- Why are wages “sticky downwards”?
- What does the unemployment rate *not* capture?
- Why do we say unemployment is “cyclical”?
- Explain implicit contracts, the efficiency wage theory, and adverse selection.
- What is the *natural rate of unemployment*?
- Compare *structural* and *frictional* unemployment.
- What are “search costs”?
- How can public policy reduce or increase unemployment?

Lecture 18

- What is the goal of monetary policy?
- Who conducts monetary policy?
- What is *interest* and why is it important?
- Describe three ways in which the Fed can implement monetary policy.
- What is the *federal funds rate* and how does it compare to the *discount rate*?
- Compare *expansionary monetary policy* and *contractionary monetary policy*.
- What is the tradeoff between expansionary and contractionary policy with respect to inflation and unemployment?
- What is deflation and why does it make it harder to implement monetary policy during a recession?
- What is the problem of “excess reserves”?

Lecture 19

- What is the difference between fiscal policy and monetary policy?
- What is the purpose of fiscal policy?
- What type of expenditures does it not include?
- Explain the difference between *contractionary*, *expansionary* and *discretionary* fiscal policy, and under what conditions each policy might be used.
- What are *automatic stabilizers*?
- How does the government generate revenue?
- What types of goods does government consume? (e.g. public or private goods.)
- What is the difference between debt and deficit?
- Is it always necessary for a government to have a balanced budget?
- What are the main tradeoffs to fiscal policy in terms of employment and inflation?

- How can fiscal policy *crowd out* consumption?