

Economics II, Fall 2018
Macroeconomics Final Exam – Study Guide
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1. What does GDP measure?
2. What type of products and services are included in GDP?
3. What is the difference between intermediate and final goods?
4. How to calculate the market value of total output?
5. What type of goods are capital goods?
6. What do we get if we sum up the value added of all firms in a national economy?
7. Is the value of goods produced, but unsold, in the current period included in GDP?
8. An economy produces X tables valued at $\$Y$ each. Households purchase x_1 tables, of which m_1 are imported. Businesses purchase x_2 domestically produced tables, the government purchases x_3 domestically produced tables, and e_1 domestically produced tables are sold abroad. The unsold tables at the end of the year are held in inventory by the table manufacturers. How would you calculate the value of GDP?
9. What is the difference between nominal and real GDP?
10. What is the difference between the price index and the rate of inflation?
11. How would you define the nominal wage and the real wage?
12. How would you compare the purchasing power of nominal wages in two different years?
13. Who benefits and who loses if the rate of inflation is above the nominal interest rate?
14. What is hyperinflation?
15. How would a change in demand for labor and in supply of labor affect wages and employment?

16. If a company sells its product at a higher price this year than it could sell in last year, how would that affect demand for labor, the wage and labor supply?
17. How does the increase in physical capital at a company affect labor productivity at this firm?
18. What types of unemployment exist?
19. When was the rise in average living standards experienced by most industrialized countries the highest?
20. If you know the interest rate a bank will pay you, how to calculate the Future Value of your current deposit?
21. How to calculate real GDP if you know the productivity level of employees, or the share of employees within total population?
22. How did we define human capital?
23. What is the marginal product of labor? How does it change if workers can use more capital (machines, equipment, better technology) in production?
24. What is diminishing returns to capital?
25. What types of assets are parts of total wealth?
26. What is the difference between flow and stock variables and values? Which financial means are flow and which ones are stock variables?
27. What is the savings equation for a country if you know its GDP, total consumption, investments and government expenditures?
28. What is private saving, public saving and national saving?
29. Why do people save a share of their income?
30. What other motives influence saving behavior beside rational considerations?
31. What is the relationship between the real rate of interest and demand for and supply of savings?
32. What policies can affect saving behavior?
33. What is a corporate, and a government bond? How to calculate its current value if you know the market rate of interest?

34. How to calculate the current value of a share (stock)?
35. What are the components of a bank reserve?
36. What is the desired reserve-deposit ratio? Once it is set by FED, how can banks calculate the quantity of loans they can extend to borrowers?
37. What is the quantity equation for money? How did we define the velocity of money?
38. In the long run, what are output gaps eliminated with?
39. What does total spending affect in the short-run, and in the long-run?
40. According to Okun's Law, when the output gap is negative, will cyclical unemployment be positive or negative?
41. What do many firms do in the short run and in the long run to eliminate output gaps?
42. What does total spending influence in the long run?
43. Why do not firms change prices frequently?
44. What does consumption depend on in the Keynesian model?
45. What is the slope of the consumption function equal with?
46. In the short run with predetermined prices, when output is greater than planned aggregate expenditure, is potential output less or more than short-run equilibrium output?
47. What is a recessionary, and an expansionary output gap?
48. In the short-run Keynesian model where the marginal propensity to consume is 0.5, to offset a recessionary gap resulting from a \$1 billion decrease in autonomous consumption, how much government purchases must be?
49. What factors affect individuals' and firms' demand for money?
50. Because the Fed determines the money supply, is the money supply curve is downward sloping or upward sloping, or is vertical?
51. What is the Federal Reserve discount rate?
52. What factors determine the equilibrium quantity of money in circulation?
53. How is the interest rate labelled that commercial banks pay to the Fed; and charge each other for short-term loans?

54. When actual output is larger (or smaller) than potential output, is there an expansionary output gap or a recessionary output gap? What happens to the inflation rate?
55. What factors may result in a recessionary or in an expansionary output gap?
56. Starting from potential output, if firms become more optimistic about the future and decide to increase their investment in new capital, in which direction will the aggregate demand curve or the aggregate supply curve shift?
57. Starting from potential output, if consumer confidence increases and consumers decide to spend more, how will that affect aggregate demand and aggregate supply?
58. What will happen to the inflation rate and to total output in an economy with an expansionary gap?
59. How would a large decrease in government purchases will affect total output and inflation in the short-run and in the long-run?
60. When can real wages be cut without cutting nominal wages?
61. What impact can a reduction in the marginal tax rate have on potential output and why?
62. How will a tax increase that affect both aggregate demand and potential output the long-run equilibrium level of output, and inflation?
63. What does a bilateral trade balance mean?
64. What is the best measure of a country's openness to international trade?
65. What are vertical FDI and horizontal FDI?
66. For a given domestic and foreign price level, how will an increase in the nominal exchange rate affect the real exchange rate?
67. Based on the purchasing power parity theory, in the long run, currencies of countries with significant inflation will tend to depreciate or appreciate?
68. What is net capital outflow or net capital inflow?
69. Holding risk and the real returns available abroad constant, how will lower domestic real interest rates affect capital inflows, capital outflows, and net capital inflows?
70. In an open economy, how will an increase in the government's budget deficit affect the domestic real interest rate and the level of capital investment in the country, holding other factors constant?
71. In an open economy, if domestic citizens decide to save more, what will happen to the domestic real interest rate and to the level of capital investment, holding other factors constant?

72. When will net exports tend to be low related to the level of the real exchange rate?
73. Should an economy with a trade surplus also have positive net capital outflows or positive net capital inflows?
74. In an open economy, how will an increase in capital inflows affect the equilibrium domestic real interest rate and the quantity of domestic investment?
75. In an open economy, how will a decrease in the government's budget deficit affect the domestic real interest rate and the level of capital investment in the country, holding other factors constant?
76. Which equation is equivalent to the equation $S - NX = I$?