Dr. OU HU
Economics

Review Guide
ECON 2630 Final Exam

Topic 1 – The Short-Run Macro Model

1. In short-run, spending depends on income, and income depends on spending. In contrast, in the long-run, total income is determined by full employment level and spending does not affect total income.
2. What is the consumption function?
3. What are the other factors that affect consumption?
4. How to calculate the marginal propensity to consume (MPC)? And how to interpret a MPC?
5. What is the relationship between MPC and MPS (marginal propensity to save)?
6. When does a change in consumption happen on the consumption-income line? And when does a change in consumption shift the whole consumption-income line?
7. What is the Aggregate Expenditure (AE)? How to derive it in a graph?
8. How would the difference between AE and GDP predict future production?
9. Use graphs to show how an economy reaches its short-run equilibrium output level.
10. Is the short-run equilibrium output level necessarily the long-run output level?
11. Understand the multiplying effect of a change in spending on total output.
12. Calculate an expenditure multiplier and the tax multiplier.
13. Describe the balanced budget multiplier.
14. Calculate the overall change in total output given an initial change in spending and/or in taxes?
15. What is an automatic stabilizer? Name all the automatic stabilizers.
16. Discuss the effect of saving on economy in the short run versus in the long run.
17. Describe the short-run crowding out effect of government spending.

Topic 2 – The Banking System and Money Supply

1. What is the definition of Money?
2. Explain the concept of liquidity and rank different assets based on their degrees of liquidity.
3. What is M1 and what is M2?
4. What does a bank’s balance sheet comprise of?
5. What is required reserve ratio (RRR)?
   (Required Reserve = Vault Cash + Accounts with Fed)
6. Describe the Federal Open Market Committee (FOMC), and explain what an open market operation is?
7. What are the two special assumptions in the demonstration of how the Fed changes money supply?
8. Explain how the Fed increases (decreases) the money supply through an open market purchase (sale).
9. Calculate the demand deposit multiplier given the RRR.

10. Calculate the change in money supply given the demand deposit multiplier and the initial change in a bank's reserve.
11. What are the other two tools for controlling the money supply?

Topic 3 – The Money Market and the Interest Rate

1. Explain what is the demand for money?
2. Explain why an individual has to divide his/her total wealth between the form of money and other assets.
3. What factors affect how much money an individual decides to hold?
4. Describe the money demand curve. And distinguish the change of money demand alone the curve from the shifting of the whole curve.
5. Describe the money supply curve and what causes it to shift.
6. Describe the money market equilibrium, and explain how money market reaches its equilibrium (starting from a point where money demand is different from money supply).
7. How does the Fed. change market interest rate by changing money supply?
8. How does a change in interest rate affect spending, and further affect equilibrium real GDP?
9. How does a fiscal policy (for instance, an increase in government spending) affect market interest rate, and further affect equilibrium real GDP?
10. What is the crowding out effect?
11. How does a general expectation on interest rate affect money market equilibrium?

Topic 4 – Financial Markets

1. What are the differences between economic investment and financial investment?
2. Calculate present value and future value.
3. Distinguish different financial instruments and assets.
4. Explain the relationship between risk and return.

Topic 5 – Aggregate Demand and Aggregate Supply

1. Why does the equilibrium real output level decrease when price level rises?
2. Understand the movements of the AD curve: moving alone the AD curve vs. shifting of the AD curve.
3. Why does the overall price level increase when total real output level increases?
4. Understand the movements of the AS curve: moving alone the AS curve vs. shifting of the AS curve.
5. How does a demand shock change the equilibrium real GDP and price level in the short-run?
6. What is the long-run effect of a demand shock on economy?

7. How does a supply shock change the equilibrium real GDP and price level in the short-run?
8. What is the long-run effect of a supply shock on economy?
9. What is the difference between Fed.'s hawkish policy and dovish policy?
10. Given a negative supply shock, what kind of policy should the Fed. implement to stabilize price or to maintain full employment? Can the Fed. achieve both?

Topic 6 – International Economics

1. What is an exchange rate? (different ways to quote exchange rates)
2. What creates the demand for foreign currencies?
3. What factors could cause a demand curve for one currency to shift?
4. What creates the supply of currencies?
5. What factors could cause a supply curve for one currency to shift?
6. What is opportunity cost?
7. Explain how countries should trade on the basis of comparative advantages and why countries gain from trade.