

Macroeconomics Final Exam Study Guide

The questions for the final exam will be over the following topics. They will be based largely on the 2005 AP Practice Test.

GDP
1. What is the difference between nominal and real GDP? What items are added together to calculate GDP using the expenditures approach (be sure to understand each)

Inflation
How is inflation calculated?

Unemployment
What are frictional, structural, and cyclical unemployment?

Fiscal Policy
What is a budget deficit? What is the national debt? How big is the national debt? What is "Crowding out?" What are the government's tools of fiscal policy and how do they affect aggregate demand? Which affects AD the most? What are entitlement programs?

Supply and Demand (For individual products, not aggregate supply and demand)
What are the determinants of changes in demand (Be sure you understand them)? What are the determinants of supply (be sure you understand them)? What is a shortage or surplus?

Money and Banking
What is Fractional Banking? How does one calculate a bank's required and excess reserves? How does one calculate the total increase in the money supply using the monetary multiplier given a bank's original excess reserves?

Monetary Policy
What are the Fed's tools of monetary policy and how do they work? How does each of them affect the money supply, aggregate demand, and eventually overall GDP? What is the federal funds rate?

Economic Growth
What contributes to long run economic growth (specifically, what are the "supply factors")? How does one represent long-run economic growth graphically?

The Phillips Curve
What is the trade-off shown on the short-run Phillips Curve? What is true of Phillips' conclusions in the long run?

Circular Flow Model
What are the two markets and two actors in the circular flow model? Understand how exports are a "leakage" in the circular flow model.

The Multiplier Effect
What is the multiplier effect? How does one calculate the increase in demand using the multiplier?

Aggregate Supply and Demand
What are the determinants of aggregate supply and demand? What effect do shifts in AD or AS have on price and output? What is the slope of the long-run aggregate supply curve? How does one show cost-push and demand-pull inflation graphically?

Specialization and trade
What is absolute advantage? What is comparative advantage?

Interest Rates
What is the difference between the nominal interest rate and the real interest rate?

Loanable Funds
What is determined by the interaction of the supply and demand of loanable funds?

Production Possibilities Curve
Be able to fully label the parts of a PPC

Business cycle
What are the phases of the business cycle?

Consumption and Investment
Understand a graph of a consumption schedule. Be able to fully label the parts of a graph of investment demand.