

## Exam 1: Key Concepts and Definitions

- Microeconomics vs. macroeconomics
- Who is Keynes?
- What is the Great Depression and the great Recession?
- GDP
- Per capita vs. aggregate terms
- Relation of income and expenditure in an economy
- Accounting identity
- Types of expenditure
- Types of income
- Expenditure and income approach
- Value added approach
- Nominal vs. real variables
- Price level
- Price index
- GDP deflator
- CPI
- CPI bias
- GDP basket vs. CPI basket
- Inflation rate
- Inflation and deflation
- Why is unpredictable inflation/deflation bad?
- Hyperinflation
- Money and its functions
- Measures (with their components) of money in the U.S.
- Currency
- Liquidity
- Depository institutions: definition, types, and economic benefits
- How do depository institutions make profit
- Economic growth
- Growth rate
- Exponential growth and its implications
- Catch-up growth vs. sustained growth

- Aggregate production function, its components and properties
- Technology
- Malthusian cycle
- Importance of Industrial Revolution
- Proximate vs. fundamental causes of growth
- Geography, culture, and institutions hypotheses
- Institutions and their features
- Economic institutions and their types

## Formulas

Accounting identity:  $Y = C + I + G + NX$

GDP deflator:  $\text{GDP deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \cdot 100$

CPI:  $CPI = \frac{\text{nominal basket cost}}{\text{basket cost in base period prices}} \cdot 100$

Inflation rate (%):  $\pi_t = \frac{PI_t - PI_{t-1}}{PI_{t-1}} \cdot 100$

Nominal to real conversion:  $X_{current}^{base} = X_{current}^N \cdot \frac{PI_{base}}{PI_{current}}$

Growth rate of anything (%):  $g_t = \frac{X_t - X_{t-1}}{X_{t-1}} \cdot 100$

Exponential growth of a variable  $X$ :  $X_{t+n} = X_t \cdot (1 + g)^n$

## 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 PAGES 1-2. 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
4. Do the practice problems
5. 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

*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.*