

Preparation for Opportunity I

For background and review purposes I suggest that you consult Economics 231 (www.tamu-commerce.edu/ecofin/courses/funderburk/231/231.html).

You might focus on the following:

Notes

- Note 9. GDP in Plain English
- Note 8. National Income Accounting
- Note 10. Classical Economics

Exercises

Sample Questions (Methodology/Terminology)

- Inflation/Unemployment
- Investment?
- Does this go into GDP?
- Adding - Conceptually
- National Income – Practice Calculations
- Converting Current to Constant
- The Consumption Function
- Aggregate Curves
- Classical Economics
- The Multiplier

Generally—What should I know?

Macroeconomic Policy Making – the process/steps

Establishing goals, priorities

- the process
- positive v normative economics
- the goals
- shifting priorities

Assessing the economy's performance

Key performance indicators

- employment related
- price level
- international
- other- consumer confidence, capacity utilization, etc

(Note: for each indicator, be familiar with the statistic. Who compiles the stat.? How? What does it measure? What are the weaknesses or limitations? Types of variables: stocks, flows, nominal, real, chain-weight, fixed-weight).

output and growth
GDP – how determined?
spending sectors?
what included, excluded?
Other/related income accounts
N.I., D.P.I. (relationships between accounts?)

Theory

Circular flow model: simple basics

Classical theory

- who were the Classicals?
- basics of Classical theory?
- Say's law: essentials, implications
- Classical v. Keynesian theory

Aggregate demand-aggregate supply

- model (with price level):
 - what the curves represent;
 - what determines slope/shape of each;
 - curve shifters;
- manipulation of the model – be able to illustrate and determine effects of various autonomous changes, policy measures (under different economic circumstances)

Basic Keynesian model (Keynesian cross):

Consumption function: graphics, MPC, MPS, movements along function v shifts; Non-income determinants of consumption

- Investment function
- Two-sector equilibrium (algebra and graphics)
- Planned / intended investment versus measured / realized
- Simple Keynesian multipliers

Adding government spending and taxes to the model

- Three-sector equilibrium (algebra and graphics)
- New multipliers

Adding imports, exports to the model.

- Four sector equilibrium (algebra and graphics)
- More multipliers

Tweaking the model

- adding positive MPI

- adding tax function

Some Terminology/Distinctions

Note: This is not a definitions/memorization exercise. You should be able to recognize, analyze, apply the terms and concepts. For example, while it is easy to memorize the definitions of macroeconomics versus microeconomics, you should be able to apply—a *la* Henry Hazlitt.

- macroeconomics – microeconomics
- positive economics – normative economics
- real variables – nominal variables
- current dollar values – constant dollar values
- final transactions – intermediate
- stock variables – flow variables
- “unemployed” – not employed