I. Introduction.
   A. The causes of the great recession
   B. Government responses to great recession

II. Chapter 4: Measuring GDP and Economic Growth
   A. Definition of GDP
   B. Measuring GDP
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         a) C+I+G+NX
         b) Definition of each component
      2. Income side
      3. Gross vs net investment
      4. Nominal vs Real GDP
      5. GDP deflator
   C. Lucas wedge: GDP vs potential GDP
   D. The business cycle (4 stages)
   E. Limitations of GDP as measure of standard of living

III. Chapter 5: Monitoring Jobs and Inflation.
   A. Measuring activity in labor market
      1. Labor force measures
         a) Unemployment rate
         b) Labor force participation rate
         c) Employment population ratio
      2. Factors causing changes in labor force measures
         a) Discouraged workers
         b) Labor market entry and exit
      3. Types of unemployment
         a) Structural
         b) Cyclical
         c) Frictional
      4. Natural rate of unemployment
         a) Definition
         b) Source of changes in natural rate
   B. Potential GDP & Output gap
   C. Inflation
      1. Measuring with CPI or GDP-deflator
      2. How inflation redistributes wealth
         a) Borrowers and lenders
b) Taxes

c) Employers and employees

3. CPI

a) Construction of CPI

b) Problems with CPI

(1) Bias in construction

(2) Effect on government spending and tax revenue
c) Converting nominal variables into real variables using CPI
d) Using CPI to determine value of dollar at different points in time (e.g. $1 in 2000 has same purchasing power as $x in 2010).

IV. Ch.6: Economic Growth
A. Mathematics of growth rates
   1. Calculating annualized rate of growth
   2. Rule of 70
B. Sources of economic growth in classical model
   1. Labor market
      a) Factors affecting labor supply
      b) Factors affecting labor demand
   2. Aggregate production function
      a) Factors shifting production function
   3. Using classical model to examine how various factors affect
      a) Real wages, employment
      b) Productivity
      c) Potential GDP

V. Chapter 7: Savings and Investment
A. Gross Investment, Net Investment and Depreciation
B. Wealth and Savings
C. Source of funds for investment
   1. \( I = S + (T-Tr)-G + (M-X) \)
D. Loanable funds market
   1. Supply of loans (Savings)
   2. Demand for loans (Investment)
   3. Equilibrium interest rate
      a) Nominal vs real interest rate
   4. Factors shifting supply or demand for loans and effect on interest rates, saving and investment.
   5. The role of government budget deficits/surpluses in loanable funds market.
      a) Ricardo-Barro effects.
E. The Global loan market
   1. Link between net exports and position as net borrower or lender.
      a) Net exports>0 ⇒ net lender
b) Net exports < 0 → net borrower

VI. Ch 8: Money, the price level, and inflation.
A. Money
   1. Definition
   2. Types of money
   3. Functions of money
B. Gresham’s law
C. Banking
   1. Bank objectives
   2. Trade-off between risk, return and liquidity
   3. Fractional reserve banking
D. Structure of Federal Reserve
   1. Board of governors.
   2. FOMC
   3. Regional banks.
E. Components of money supply
   1. Reserves
   2. Monetary Base
   3. M1, M2
F. Creation of money by banking system and deposit multiplier.
G. Fed tools and control over money supply.
H. Effect of following on money supply, loans and interest rates.
   1. Fed open market purchase or sale.
   2. Fed changes reserve ratio
   3. Fed changes discount rate
   4. Public holds more or less wealth as cash outside bank.
I. Money supply/demand and interest rates.

VII. Financial markets.
A. Bonds
   1. Present value
   2. Relationship between price and yield
   3. Calculating yields
      a) One year bond
      b) Zero coupon bond
   4. Yield curve and expectations about future interest rates.
B. Stocks
1. Fundamental value.
2. Price-earnings ratio
3. Beta

VIII. Ch. 9: Exchange rate and balance of payments.
A. Foreign exchange market
1. Supply of $
2. Demand for $
3. Factors changing supply or demand for $ and impact on value of $
4. Effect of appreciation or depreciation of $ on U.S. exports and imports.

B. Interest rate parity
1. Effect of exchange rate movements on net return in foreign assets.
2. Link between interest rate differentials and expected changes in exchange rates.

C. Purchasing power parity
1. Opportunities for “arbitrage”
2. Link between inflation differentials and exchange rate movements.

D. Balance of payments accounts.
1. Current Account
2. Capital account
3. Official settlements account.
4. Bal of payments and lender/borrower status; debtor creditor status.

E. \( NX=(T-G) + (S-I) \)

F. Exchange rate policies.
1. Fixed exchange rates and intervention required to support under- or over-valued currency.
2. Flexible exchange rates.
3. Crawling peg

IX. Ch. 10: Aggregate Supply and Demand.
A. Long Run Aggregate Supply
1. The classical model
   a) Labor supply
   b) Labor demand
   c) Production function
2. Determinants of potential GDP and LAS
B. *Short run aggregate supply*
   1. Sticky wages
   2. As price level rises, movement along LAS causes
      a) Real wages to fall
      b) Employment to rise
      c) Real GDP to rise
   3. Shifts in SAS

C. *Aggregate demand*
   1. \( C + I + G + (X-M) \)
   2. Why AD drops when price level rises
      a) Wealth effect
      b) Intertemporal substitution effect
      c) International Substitution effect
   3. Factors causing changes in AD

D. *How economy returns to long run equilibrium*
   1. Starting from GDP>potential GDP (inflationary gap)
   2. Starting from GDP<potential GDP (recessionary gap)

X. Ch. 12: *Inflation, Unemployment and Business cycles.*
   A. *Demand pull vs. cost-push inflation.*
   B. *Phillips Curve*
      1. Short run
      2. Long run
      3. Importance of inflation expectations.
      4. Link from AD/AS model to Phillips curve.
   C. *Business cycle theories.*
      1. Demand side theories
      2. Real business cycle theories
         a) Productivity shocks cause business cycle.
         b) Effect of productivity shock
            (1) *real wages, employment*
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XI. Ch. 13: Fiscal Policy.

A. Federal budget process

B. Recent budget issues
   1. Economic stimulus act
   2. Major sources of tax revenue
   3. Major spending categories
   4. Relationship between deficit and debt
   5. Distribution of tax burden

C. Supply side economics
   1. Effect of taxes
      a) Labor market
      b) Long run aggregate supply
   2. Distribution of the tax burden and trends.
   3. The Laffer Curve.
      a) Tax rates and tax revenue
      b) Effect of tax rates on tax avoidance.
   4. Effect of taxes
      a) Investment and saving
      b) Crowding out
      c) Ricardo-Barro effects on crowding out

D. Fiscal policy
   1. Discretionary
   2. Automatic stabilizers.
   3. Limitations of fiscal policy

E. The budget and the business cycle
   1. Actual budget
   2. Cyclical budget
   3. Structural Budget