Review Sheet for the Final Exam

Exercise #1: Use the Solow Model to explain the following:

a. Why do countries with higher levels of investment per capita have higher potential output?

b. Why might the country from a have lower consumption per person?

c. Why do countries with lower GDP per capita have higher growth rates, all else equal?

d. Why do countries that are more open to trade have higher potential output.

Exercise #2: Fiscal Policy

a. Provide two different ways to measure a country's sovereign debt situation?

b. Using the AS/AD model, show how a sovereign debt crisis might make a recession worse?

c. What is meant by “crowding out?” Is it currently a problem for the U.S. economy?

c. Why are government spending multipliers usually larger than tax multipliers?

d. True or False? Fiscal policy is more effective when unemployment is high?

Exercise #3: Financial Markets

a. Why might stock prices rise in response to an unexpectedly bad employment report?

b. Why might stock price rise in response to an unexpectedly good employment report?

c. How can falling asset prices impact the real economy?

Other Topics to Focus on:

1. Was the covid-19 recession mostly the result of declining aggregate supply or falling aggregate demand?

2. What types of emergency lending occurred in response to covid-19?

3. What do economists mean by “propagation?”

4. Why has the ongoing economic recovery been faster than expected?

5. What is an inverted yield curve and why do financial markets pay attention to them?

6. Why are Greek bonds cheaper than German bonds?

7. What is the difference between risk and ambiguity?

8. What usually happens to risk aversion during recessions?

9. How do institutions affect growth?

10. What is a poverty trap?

11. What is the difference between output and potential output?

12. What is a subsistence economy?

13. What is the difference between the total public debt and the debt held by the public?

14. What is the difference between a budget deficit and the national debt?

15. How might climate change affect potential output?

16. True or False? When a country’s sovereign debt reaches 90% of GDP, a crisis is usually imminent.