

Summary for Midterm I

1 Economics Models

1. Understanding three key economic ideas. (rational, incentives, margin)
2. Economic problems. (WHW)
3. Efficiency vs. equity.
4. Shift in curves, percentage changes.

2 Measuring Total Production and Income

1. GDP definition
2. Shortcomings of GDP definition (what not included? Over- or Under-estimate?)
3. Real vs. nominal GDP. (Calculation)

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

4. Other measures (GNP, GNI, NNI, PI, DPI)

3 Inflation

1. Definition and it is different from price level.
2. Calculating CPI. (Similar to GDP deflator).
3. Inflation adjustment and comparison across time (wage and capital).
4. Anticipated inflation (cost) and unanticipated inflation (risky for borrowing and lending).
5. Deflation

4 Unemployment

1. Definitions (Employment, unemployment, labor force, civilian noninstitutional population)
2. Calculation (UR, LFP, EPR).
3. Types of unemployment. (Frictional, structural, cyclical).
4. Policies related to unemployment. (UI, minimum wage, labor union, efficiency wage)

5 Growth and Business Cycles

1. Growth rate calculation (short vs. long period)
2. Labor productivity (unit measure) and factors affecting it (capital, human capital, technology, institutions).
3. Potential GDP (should be stably increasing and smooth).
4. Derivation of savings equals investment.
5. Loanable funds model
6. Business cycles, its phases, and characteristics (effect) of each phases: production of firms, inflation, unemployment.

6 Growth and Policies

1. Economic growth model (capital and technology).
2. Diminishing return of capital and the importance of technological change.
3. New Growth Theory and knowledge capital (public good, increasing return at the economy level).
4. Government's role (patents and copyrights, R&D, education).
5. "Creative Destruction".
6. Catch-up predicted by the Solow growth model.
7. Reasons why no catch-up. (High and low income countries).
8. Solutions (foreign investment and globalization).
9. Growth policies (property rights, health and education, technological change, savings and investment).