Chapter 20, 21, 23, 24, 25, 26, 27, 29, 30 will be covered in the final exam.

Final exam questions:

Section 1: **essay question (20 marks, questions are given in the last page);** Section 2: multiple choice (30 marks); Sections 3: problem solving (50 marks, choose any 5 out of 7. If more than 5 questions are answered, only first 5 will be marked).

Chapter 20

Definitions of GDP, Real GDP and business cycle; graphical representation of business cycle and how macro economic variables such as inflation, unemployment and economic growth are affected during different phases of a business cycle.

Two approaches in measuring GDP: expenditure approach (Y=C+I+G+X-M, circular flow model, why intermediate good is not counted in GDP) and income approach.

Calculation of Real GDP using base year method, calculation of Real GDP per capita, growth rate; Calculation of GDP deflator;

Chapter 21

Definition of unemployment; cyclical, structural and frictional unemployment; CPI;

Calculation of four labor market indicators, CPI, CPI based inflation rate, GDP deflator based GDP deflator.

Comparison of core CPI and CPI.

Chapter 23

Definition of real interest rate.

How investment is financed: I=S+T-G+M-X; How government budget balance impacts loanable funds market, David-Barro effect.

Chapter 24

Functions of money; forms of money today; Functions of the Bank of Canada in the banking system; how banks create money; definition of banks’ reserve, excess reserve, desired reserve ratio, money multiplier (inversely related to reserve ratio).

Money market (see midterm question in section 2).

Chapter 25

Definitions of appreciation, depreciation, three types of foreign exchange rate policies;

Relation between current account balance, capital account balance, and official reserve balance;

What forces drive exchange rate to appreciate or depreciate;

Chapter 26

Factors bring shifts in AD curve: income, monetary policy (interest rate, money supply), fiscal policy, foreign income, expected future inflation rate, expected future income, expected future profit, exchange rate fluctuation.

Factors bring shifts in SAS and LAS curves: changes in L, K, T.

Factors bring shifts in SAS curve: changes in resource prices (note that wage rate change will only shift SAS, not AD curve).

Factor brings movement along AD/SAS curve: price level changes.

Definitions of short-run equilibrium, long-run equilibrium, inflationary gap, recessionary gap.

Chapter 27

Definitions and calculations of MPC, MPS, equilibrium expenditure, expenditure multiplier, autonomous tax multiplier.

AE model: convergence to the equilibrium.

Chapter 29

Calculation of Government budget balance;

Actual budget balance = structural budget balance + cyclical budget balance.

Chapter 30

The objectives of monetary policy, definition of overnight loans rate, How the Bank of Canada raises/lowers the overnight loans rate;

The transmission of monetary policy (easy money, tight money);

Final exam questions:

Section 1: essay question (20); Section 2: multiple choice (30); Sections 3: problem solving (choose any 5 out of 7. If more than 5 questions are answered, only first 5 will be marked).

ECON 212 FINAL EXAM ESSAY QUESTIONS FALL 2014

One of the following essay questions will be on your final exam (Note that you are required to prepare all three questions. At the time of the exam, one question chosen by instructor will be asked). Confine your answer to approximately 400 words for each question. The essays will be marked on the basis of relevancy to the topic and for theoretical accuracy.

1. Assess the usefulness of the gross domestic product as a measure of a society’s economic well-being.
2. Inflation and unemployment have been labeled as “the twin evils of modern macroeconomics”. What do you think is the basis for such a labeling? Which of these two evils is, in your opinion, the lesser evil? Provide reasons for your choice.
3. Analyze the effectiveness of both fiscal and monetary policies as tools for economic stabilization. In your analysis, discuss the strengths and weaknesses of both policies, and indicate which approach, in your opinion, is better suited for the current Canadian economic environment.