1 Overview

- This review sheet provides a checklist of the models covered after the midterm. You can find relevant answers in the handouts or homework.
- Please note that it is **not comprehensive**. Suggested review strategy: carefully review the lecture slides (for concepts and details), homework (for skills), and handouts (for framework).
- Good luck and enjoy your preparation!

2 IS-LM-AD-AS

- What are the key equations of the New Keynesian model?
- How can we derive the IS, LM, and AD curves algebraically using the key equations?
- How can we derive the IS, LM, and AD curves graphically?
- How does price stickiness affect the shape of the AS curve?
- What is the relationship between the AS^f and AS curves (both algebraically and graphically)?
- How do shocks such as A_{t+1}, G_t, G_{t+1}, uncertainty, M^s, P_t, π^e_{t+1}, θ_t, etc., affect these curves?

3 Partial Sticky Price Model

- What are the differences between the medium run and the short run? (What determines the equilibrium? What determines employment and wages? What determines output?)
- What are the differences among the Neoclassical model, the simple sticky price model, and the partial sticky price model? Which curves determine the equilibrium in each model? How are these models related?
- How do changes in M^s, a technology shock A_t, an IS shock, changes in θ_t, cost-push shocks, etc., affect the equilibrium in the three models?
- What are the dynamics of shocks in these models?
- How does monetary policy work in the three models?

4 Phillips Curve

- What is the self-correcting mechanism? How does it work to bring the economy back to the medium-run equilibrium? Which curve adjusts?
- What is the role of anticipation in policy implementation?
- How do we interpret the Phillips Curve?

5 Monetary Policy & Fiscal Policy

- What are the two typical goals of optimal monetary policy?
- How should monetary policy be implemented in response to a technology shock A_t, an IS shock, or an increase in $\bar{P}$? How can the economy be brought back to medium-run equilibrium?
- What is strict price targeting policy? What is the definition of the effective AD curve?
- Which curve does fiscal policy shift? What are the differences between the outcomes of using fiscal policy versus monetary policy? Which one is preferred, and why?
- How is the MP curve derived (both algebraically and graphically)? Practice drawing the seven graphs related to the MP curve. How do various shocks shift the curves in the IS-LM-MP model?

6 ZLB

- What is the definition of the ZLB? How can it be interpreted algebraically? What is the definition of the effective LM curve?
- What are the differences between a non-binding and a binding ZLB?
- Why is the ZLB costly (from two perspectives)? How does Unconventional Monetary Policy work? Be sure you understand how the long-term interest rate is determined.

7 Term Spread

- What is the equation for calculating the present value (PV) of a bond? What are the definitions of the bond's price, principal, coupon, and yield to maturity (YTM)?
- What are the two main theories of the term structure of interest rates? How does the YTM differ between the two theories?
- What is the definition of the yield curve? Be sure you understand how to plot the yield curve theoretically.
- What does the slope of the yield curve imply? What is the underlying mechanism?

8 The Open Economy

- What is the difference between an open economy and a closed economy? Explain using both equations and graphs.
- What does the slope of the IS curve represent?
- How does the impact of a shock in M_t differ between an open economy and a closed economy? Why is the IS curve in a small open economy flat?
- What is the effect of an increase in the foreign interest rate r^F and the shift variable Q_t?

- Be sure to understand the policy implications.

Small tip: If the interest rate on the home currency increases, the home currency appreciates because more people want to invest in it. This appreciation makes exports more expensive, leading to a decrease in exports. As a result, net exports (NX) also decline.

9 Others

Make sure to read the slides thoroughly.