

CPA: Economics

Semester Final Review Sheet
Dopman / Fall 2009

Resources:

- ❖ Economics: Principles in Action, O’Sullivan and Sheffrin:
 - ❑ Chapter 9 – Labor
 - ❑ Chapter 10 – Money and Banking
 - ❑ Chapter 11 – Financial Markets
 - ❑ Chapter 12 – GDP
 - ❑ Chapter 13 – Unemployment, Inflation, and Poverty
 - ❑ Chapter 14 – Taxes and Government Spending
 - ❑ Chapter 15, Section 3 – Budgets, Deficits, and Debt
 - ❑ Chapter 16 – Federal Reserve

NOTE: your final exam will be two parts: an oral conversation on January 26th and a test on January 28th or 29th. In both, BIG ideas will be more important than specific facts. With this said, big ideas below are in **BOLD**. Make sure you know these terms and ideas.

FIRST QUARTER

Values and Money

- Values
- **The American Dream**
- **Money and happiness**
- Cost of Living
- Disposable Income
- **Economics**
- Four types of economies
- Capitalism vs. Democracy
- **Needs vs. Wants**
- Biological Need
- Social Need
- Scarcity
- Limited Resources
- Allocation
- **Trade offs**
- “guns or butter”
- Microeconomics
- Macroeconomics
- Karl Marx – basic beliefs
- The Communist Manifesto
- Bourgeoisie
- Proletariat
- “exploitation of the worker”
- Adam Smith – basic beliefs
- The Wealth of Nations
- **Laissez-faire economics**
- **The “Invisible Hand”**
- **Incentives**

- Factors of production
 - Land
 - Labor
 - Capital
 - Entrepreneurship

Supply and Demand

- Demand
- **Law of Demand**
- Substitute
- Compliment
- **Four most important factors for change in demand:**
 - change in consumers income
 - change in consumers attitude (taste, expectations)
 - change in \$ of complimentary product
 - change in \$ of substitute product
- Supply
- **Law of Supply**
- **Four most common reasons for change in supply:**
 - Technology
 - Input Costs
 - Expectations
 - # of sellers
- Market vs. Individual Supply
- **“The Market”**
- Competitive Markets
- Supply and Demand Curves
- **Equilibrium**
- Equilibrium Price
- Equilibrium Quantity
- Shortage
- Surplus
- Price Ceiling
- Price Floor
- **Normal Good**
- **Inferior Good**
- Elasticity of Demand
- Inelastic
- Elastic

Competition

- **Perfect Competition**
 - 4 conditions for perfect competition
- Commodity
- Imperfect competition
 - Barriers to entry - examples
- Sherman Antitrust Act
- Competitive Markets
- **Monopoly**
 - Why do they occur? → 3 barriers to entry
 - “Public policy towards monopolies”
- **Economies of scale**
- Natural monopoly

- Government monopoly
- Price war
- Collusion
- Price Fixing
- Cartel
- Oligopoly
- Predatory pricing
- Regulation/deregulation
- Skilled vs. Unskilled Labor

Business and Corporate America

- Historical progression of the U.S. economy
 - **Media, content vs. advertising**
 - **Active vs. passive consumption**
 - **Marketing**
 - **Consumption**
 - Merchandising ideas/politics
 - Narrowcasting
 - “The secret [to advertising] is to induce the person to persuade themselves.”
 - **“Media clutter”**
-
- Proprietorship
 - Corporation
 - Dividend
 - Multinational
 - Nonprofit
 - Franchise
 - **Cost of Production**
 - **Revenue**
 - **Profit**
 - Asset
 - Stock
 - IPO
 - Corporate Departments
 - Product Development
 - Manufacturing
 - Marketing
 - Sales
 - Human Resource
 - Finance
 - Venture Capital
 - **Test of the Market**
 - Business to consumer
 - Business to business
 - Outsourcing
 - Merger
 - Horizontal merger
 - Vertical merger
 - Conglomerate
 - “Opening Price Point”
 - Big Box Retailers

SECOND QUARTER

Labor

- **Labor Force**
- Unemployment
- Bureau of Labor Statistics (BLS)
- Productivity
- **Supply and Demand for Labor**
- **Equilibrium wage**
- **Unskilled Labor**
- **Semi-Skilled Labor**
- **Skilled Labor**
- **Professional Labor**
- Compensating Differentials
- **Human Capital**
 - **David Brooks definitions**
- How do these variables impact a person's earning?
 - Ability
 - Effort
 - Chance
- Beauty
- **Signaling**
- The Superstar phenomenon
- Discrimination
- Comparable Worth
- Wage discrimination
- Glass ceiling
- Union
- Collective Bargaining
- Strike
- Mediation
- Arbitration
- Unemployment rate
- **Cyclical Unemployment**
- **Frictional Unemployment**
- **Structural Unemployment**
- **Contingent Unemployment/Seasonal employment**
- **Full employment**
- **Underemployed**
- **Discouraged worker**

Money

- A medium of exchange
- A unit of account
- A store of value
- Six Characteristics of Money 245
- Commodity money
- Fiat money
- Currency
- Demand deposits
- Gold standards

- The Great Depression
- Bank run
- Federal Deposit Insurance Corporation (FDIC)
- Money Supply
- **Liquidity**
- Interest
- Principal
- Debit vs. credit cards

The Market

- **Investment**
- **Stocks**
- **Stock Market**
 - **New York Stock Exchange**
 - **NASDAQ**
- **Dow Jones Industrial Average**
- Bull/bear market
- Speculation
- **Market “Bubbles”** – The dot.com bubble vs. the housing bubble?
- Stockholder
- Stakeholder
- Interest
- Tax Shelter
- 401K, 403B, IRA
- **Compounding interest**
- Financial Intermediaries
- Portfolio
- **Diversification**
- Risk
- Mutual Funds
- Certificates of Deposit
- Bonds
 - Savings
 - Treasury
 - Municipal
- SEC
- Capital Gains/Loss
- **Inflation**
- Inflation rate
- Purchasing power
- Consumer Price Index (CPI)
- Hyperinflation
- Cost push theory
- Demand pull theory
- Wage price spiral
- Fixed income
- Deflation
- Stagflation
- Poverty
- **Poverty Rate**
- Poverty Line
- **Causes of poverty**

- Working poor
- **Minimum wage**
- **Living wage**
- Cost of living
- **Meritocracy**
- **Class mobility**
- Income distribution
- Food Stamps
- Workfare
- In kind transfers
- Life Cycle of employment/income
- **Utilitarianism**
- **Liberalism**
 - **John Rawls**
 - **Maximin Critearon**
- **Libertarianism**

Gross Domestic Product and the Economy

- **GDP**
- **Intermediate vs. final goods**
- Durable vs. Nondurable goods
- Nominal GDP
- Real GDP
- Limits of GDP
 - Non Market Activities
 - The Underground economy
 - Negative externalities
 - Quality of Life
- **Business Cycle**
- Expansion
- Contraction
- Peak
- Trough
- **Recession**
- Depression
- Stagflation
- Business Cycle Variables
 - Business investments
 - Interest rates & credit
 - Consumer expectations
 - External shocks
- Leading indicators

Taxes, Fiscal Policy, and the Fed

- **Tax**
- Revenue
- Direct tax
- Indirect tax
- **Individual Income tax**
 - 1040 (A, EZ)
 - W-2
 - W-4
 - Tax Table

- Taxable income
- Tax bracket
- Deductible/deduction
- audit
- Corporate Income tax
- **Sales tax**
- **Property tax**
- California's Prop 13
- **Progressive tax**
- **Regressive tax**
- Tax incentives
- Federal vs. state vs. local taxes
- Estate tax
- Gift tax
- Federal spending
- Classical economics
- Productive Capacity
- **Demand side economics**
- **John Maynard Keynes**
- **Keynesian economics**
- **Supply side economics**
 - **"Trickle Down Economics"**
- Council of Economic Advisors (CEA)
- Balanced Budget
- Budget Surplus/Deficit
- Creating money vs. borrowing money
- National Debt
 - as a % of GDP
 - \$12,200,000,000,000
- **Crowding out effect**
- **The Federal Reserve 1935**
- Board of Governors
- Chairman of the board
- Ben Bernanke
- Alan Greenspan
- Federal Reserve Districts
- Member banks

- Function of the Fed
 - Bank health – lender of last resort
 - Regulating the money supply
- **Tools of the Fed**
 - Open Market Operations
 - Reserve Ratio Requirements
 - The Discount Rate
- Macroeconomic policy
- Monetarism
- **Policy Lags**

The Great Recession (The Financial Crisis 2007-2010)

- **Housing Bubble**
- **“Too big to fail”**
- **Sub-prime loans**
- **Adjustable rate mortgages (ARMs)**
- **Easy credit**
- **Mortgage broker**
- **Predatory lending**
- **Securitization**
- **credit rating agencies**
- **“Underwater” mortgage**
- **Foreclosure**
- **Credit crunch**
- **Troubled Assets Relief Program TARP**
- **American Recovery and Reinvestment Act of 2009**
- **Consumption tax**

“Commanding Heights”

- John Maynard Keynes
- Fredrick von Hayek
- Dependency theory
- Milton Friedman
- “The Chicago Boys” and Chile
- Shock therapy
- Russia vs. China, reforms
- Robert Rubin
- NAFTA
- Emerging Markets
- Free trade zone
- “Contagion”, started in Asia

People

- Barack Obama
- Joe Biden
- Nancy Pelosi
- Harry Reid
- Timothy Geithner
- Lawrence Summers
- Ben Bernanke
- Paul Volcker
- Barbara Lee
- Barbara Boxer
- Diane Feinstein