General Topics for the State Final Examination in Economics

Macroeconomics

1. **Subject of macroeconomics, economic indicators.** Gross domestic product and measurement methods. Nominal and real product. Potential product. The concept and types of product gap. Inflation. Unemployment. Balance of payments.
2. **Macroeconomic theories of consumption.** Macroeconomic theories of consumption: model of intertemporal choice, life cycle hypothesis, theory of permanent income, Keynesian theory of consumption.
3. **Macroeconomic theories of investment.** Macroeconomic theories of investment: principle of flexible accelerator, investment multiplier, concept of Tobin's q.
4. **Product model – expenditure and basic principles of fiscal policy.** Assumptions of the model; formation of the equilibrium product in the model; principle of the expenditure multiplier. Assessment of fiscal policy measures through a model. Real, structural and cyclical deficits. Assessing changes in net exports and the exchange rate using a product-expenditure model. Effects of nominal exchange rate changes on exports and imports (Marshall-Lerner condition) and on equilibrium output.
5. **The money market and the basic principles of monetary policy.** Empirical and theoretical definition of money, function of money. Definition of the demand for money, factors influencing the demand for money according to Fisher's quantitative theory of money and the modified Cambridge version, Keynes's theory of liquidity preference and Freidman's theory of the portfolio. Defining the supply of money. Formation of money supply – monetarist approach, contemporary theories (credit creation). Equilibrium in the money market. Monetary policy objectives. Monetary policy instruments and their use in different monetary regimes. Classical dichotomy (neutrality of money)
6. **Short-term macroeconomic equilibrium in a closed economy – IS-LM** model**.** Assumptions and formation of equilibrium product and equilibrium interest rate. IS curve. LM curve. Effectiveness and ineffectiveness of monetary and fiscal policy in the IS-LM model. Crowding-out effect. Keynesian transmission mechanism and its limits.
7. **Determination of exchange rates.** Definition of the exchange rate. Types of exchange rates. Exchange rate regimes (flexible, fixed). Determination of the exchange rate in the short term: the theory of interest rate parity. Covered and uncovered parity. Determination of exchange rate in the long run: purchasing power parity theory; law of single price, absolute version, relative version. Nominal and real exchange rates. Linking interest rate parity and purchasing power parity: the international Fisher effect.
8. **Short-term macroeconomic equilibrium in an open economy. – model IS-LM-BP.** Balance of payments and its characteristics (BPM6 methodology). Establishing the balance of BP. BP curve: assumptions, properties, derivations; equilibrium and non-equilibrium points. Evaluation of fiscal and monetary policy in an open economy using the IS-LM-BP model. Mundell-

Fleming model. International crowding-out effect. The principle of the impossible trinity.

9. **Labour market – formation of equilibrium wages and employment.** Theoretical approaches: classical labour market and macroeconomic context, original Keynesian labour market – inflexible wages and their macroeconomic consequences, monetarist labour market (model of price misperception by employees), new classical economics (model of real business cycles) and new Keynesian macroeconomics (efficiency theory wages and effective labour demand). Nominal and real rigidities. Definition of the natural unemployment rate according to the monetarist concept (NAIRU). Alternative concept of natural unemployment rate – the phenomenon of hysteresis on the labour market.
10. **Inflation, unemployment and product. AS curve.** Definition of inflation and causes of the actual inflation rate (Gordon model of the triangle). Inflation expectations (adaptive, rational). Relation between inflation and unemployment: Phillips curves (original, price, price extended by inflation expectations). The relationship between the unemployment rate and the output gap (Okun's law). The relationship between the inflation rate and the output gap – short-term and long-term AS.
11. **Monetary policy and aggregate demand. Curve AD.** Monetary policy regime: inflation targeting. Taylor's rule. Basic instrument – interest rate. The relationship between the inflation rate and real interest rates, the relationship between the inflation rate and the production gap (monetary policy rule). Definition of aggregate demand. AD and the monetary policy rule.
12. **Short-term and long-term equilibrium in the AD-AS model. Treating inflation.** Demand shocks. Supply shocks. Fluctuations of real product around potential, adjustment mechanism. CB response to demand inflation – cold turkey method, gradualist method; coefficient of sacrifice. CB response to supply inflation – neutral, accommodative and suppressive policies.

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Microeconomics

1. **Consumer’s choice:** theories of utility, indifference curve, budget line, optimal choice, marginal rate of substitution, consumer’s surplus, subtitutes, complements, neutrals, bads, bandwagon and snob effect.
2. **Consumer behavior:** Consumer's attitude to risk, expected income, fair bet, fair insurance, maximum insurance.
3. **Demand curve:** individual demand function, market demand function, income consumption curve (ICC), price consumption curve (PCC), Engel's curve, price elasticity, income elasticity, substitution and income effect.
4. **Production function:** factors of production, short-run production function, long-run production function, isoquant analysis, isocost analysis, firm’s expansion path, technological progress.
5. **Cost:** short-run cost functions (total, average, marginal), long-run cost functions (envelope curve) technology transfer point.
6. **Perfect competition:** profit maximization in the short run and long run, shut-down point in the short run and long run, individual supply function, industry supply function, efficiency of perfect competition, long-run industry supply curve (LIS).
7. **Monopolistic competition:** profit maximization in the short run and long run, shut-down point in the short run and long run.
8. **Oligopoly:** collusion, price leadership, Cournot model, Stackelberg model.
9. **Monopoly**: profit maximization, regulation of monopoly, efficiency of monopoly, price discrimination.
10. **Factor Markets:** demand for labor and supply of labor, individual and market demand and supply, perfect competition in the labor market, monopsony in the labor market.
11. **Asymmetric Information:** adverse selection, moral hazard, signaling.