Important issues for the Final Test.

You should know these issues very well, for two basic reasons:

- They are key points for a proper understanding of the major contents of our course;

- They are *suitable* for a test that takes just two hours. This implies that some other points are excluded just because they demand a too long answer in the context of the duration of the test. Those other issues may be required for the team essay about the Real Business Cycle model or the New Keynesian model, but not for the final test.

Please, notice that in order to be able to answer the questions in the final test, you should know very well the following items:

1. To solve simple deterministic and stochastic difference equations.

2. What are business cycles?

3. The Hodrick–Prescott filter: its usefulness and its limitations

4. The more recent view of cycles

5. What an Impulse Response Function (IRF) is all about.

6. The difference between Adaptive vs Rational Expectations

7. How to solve a forward looking equation with Rational Expectations

8. What is Indeterminacy? The relationship between eigenvalues (larger and lower than 1 in modulus) and the number of predetermined variables versus the number of forward looking variables.

9. How to linearize a model. How transform a model that is expressed in levels in terms of growth rates

10. Know very well what is done in slide 40 in **"3. Solutions to models with rational expectations"**   `Slides 32, 40 & 48 are crucial`

11. The limitations of the Real Business Cycle model

12. The fundamental difference between commitment and discretion in Central Bank behavior.

13. To solve the inflation game under discretion and under commitment

14. Commitment vs discretion with **uncertainty**, derivations are not required, but you should understand the logic behind the results. If you are provided with the results from uncertainty, you should be able to comment upon them.

Not required this year

15. Once you are given the Euler equation, you should know how to derive the New IS function, both in the case of the CRRA utility function (as in the slides), or with a logarithmic utility function (as you have in the sample final test).

16. You should understand the logic of the optimization process associated to the New Keynesian Model (NKM).

Just the LOGIC, not the full derivation

17. In the NKM, once you are given the fundamental results about optimal monetary policy with discretion, ~~or with commitment to a simple rule,~~ you should be able to interpret them, ~~and possibly, to compare them.~~

That's all.