

Write your name on the cover of the test booklet and nowhere else. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 150 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 16-point question should take 8 minutes. I can give some extra time, but not much.

1) (8 points each) Define TWO of the following terms and give a brief example of how they are used in economics.

- A) Ceteris paribus
- B) Public goods
- C) PPC a.k.a., PPF

2) (8 points) Define EITHER liquidity OR medium of exchange and briefly state why we are concerned with them.

3) (10 points) Answer EITHER Part A OR Part B.

- A) What is wrong with the following statement? “My opportunity costs for studying for this test were, not watching the Steeler’s game, not going to the movies, not playing video games, not studying for my calculus final, not working on my paper in English, and not going home for the weekend.”
- B) Give an economic proof that a student should not “pull and all-nighter” studying on the night before an exam.

4) (16 points) Illustrate EITHER the event in Part A OR the event in Part B on the supply and demand for digital cameras. Explain why the curve(s) moved as drawn and state what happens to price and quantity.

- A) Technology improves in digital photography.
- B) Color laser printers become much cheaper.

5) (16 points) Answer EITHER Part A OR Part B.

- A) Recently, the government has considered adjusting the length of time a patent on prescription drugs lasts. Explain the advantage of lengthening their duration and the advantage of shortening their duration.
- B) The personal savings rate in the USA has been decreasing for a couple of decades. Economists argue that an unincreased savings rate has good long-run effects. Explain the bad economic effects which will result if the current trends continue.

6) (16 points) Answer EITHER Part A OR Part B.

- A) Both the economists in the Classical School, and those who believe in Ricardian Equivalence, believe that fiscal policy will have no effect on GDP. Explain how ONE of those schools comes to that conclusion.
- B) Monetarists feel that monetary policy should not be used to affect the economy. Explain their logic.

7) (18 points) Answer EITHER Part A OR Part B.

A) Use the table to the right to calculate EITHER the CPI for year  $t$  with year 0 as the base year, OR the real level of GDP for year  $t$  with year 0 as the base year.

B) We generally assume that an increase in real GDP per capita means a country is better off. Explain two reasons why this may not be true.

	$P_t$	$P_0$	$Q_t$	$Q_0$
Melons	\$2/melon	\$1/melon	50 melons	75 melons
Tea	\$4/lb	\$5/lb	4.5 lbs	5 lbs