

Write your name on the cover of the test booklet and on an otherwise blank page of the Excel file and nowhere else. Enclose this sheet with the booklet. Upload the Excel file to Moodle. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 170 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes; however, you can take the full two hours.

- 1) (10 points) For ONE of the Federal Reserve's tools, explain how the Federal Reserve's use of that tool affects the monetary base, money multiplier, and the money supply.
- 2) (10 points) Answer EITHER Part A OR Part B.
 - A) Which side of the bank's balance sheet did we put "checking accounts"? Explain the logic.
 - B) How can an increase in the monetary base cause the money supply to increase much more?
- 3) (10 points) Answer EITHER Part A OR Part B.
 - A) What can a central bank do to get credibility? How will that get them credibility?
 - B) If banks decided to keep more excess reserves without loaning them out, what would that do to the money multiplier? Explain your logic.
- 4) (12 points) Answer EITHER Part A OR Part B.
 - A) From a purely economic view, ignoring morals, would it be better to tax cigarettes or movies? Explain your logic.
 - B) Most macroeconomists feel that government spending should be kept to a minimum. Explain their logic.
- 5) (18 points) Answer EITHER Part A OR Part B.
 - A) Suppose that the following equations describe the economy: $G = 250$, $TR = 300 - 0.2Y$, $INT = 100$, and $T = 0.4Y$. If GDP is 1000 and the full employment level of GDP is 1200, then what are the budget deficit/surplus, the primary budget deficit/surplus, and the full employment deficit/surplus? Show all work. Is this government doing good fiscal policy? Explain your logic.
 - B) What is the difference between the government's budget deficit, its primary deficit, and the full employment deficit? Briefly explain how we use each one.
- 6) (40 points) Use sheet "A" on the Excel file, [exam4.xls](#), to find the seasonally adjusted value of sales if the sales in November of 2003 were 600. If the sales in 2004 were 9000, then what would you expect sales to have been in July of 2004? Forecast the sales for June of 2001. Show all calculations on the spreadsheet.