

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I cannot give extra time because of the class which follows yours.

1) (8 points) Answer EITHER Part A OR Part B.

A) Why aren't stocks and bonds considered to be investments in this course?

B) Which of the four parts of GDP is negative for the USA? Why is it negative?

2) (12 points) Answer EITHER Part A OR Part B.

A) Developing countries say that real GDP per capita is a poor measure of their economic production. Why might they be correct?

B) Why should the *sum of the value added* method of calculation GDP give the same result as the *sum of the final goods and services* method of calculating GDP?

3) (12 points) Answer EITHER Part A OR Part B.

A) Suppose the consumption function is  $C = 200 + .8Y$ . What are the MPC, MPS, APC, and APS for a person earning \$20,000? Show all work, and if there is no work, then BRIEFLY state how you reached each conclusion.

B) If you knew the NI of a country and wanted to find the PI of the country, what information would you need to know? Explain why you would need that information and how you would use it.

4) (14 points) Answer EITHER Part A OR Part B.

A) What is *creative destruction*? Why is it important for economic growth?

B) Why do open economies grow faster than closed economies? Give two reasons.

5) (14 points) Answer EITHER Part A OR Part B.

A) Why does a sales tax have a different effect upon the SRAS/LRAS/AD diagram than the effect of an income tax?

B) Why does the LRAS Curve take its shape?

6) (40 points) Answer EITHER Part A OR Part B.

A) Draw an SRAS/LRAS/AD diagram and a Keynesian Cross, a.k.a. 45° diagram, for an economy in a recessionary gap. State how you know it is in a recessionary gap. Assume the government takes no action. How will the economy get back to full employment? Illustrate that on both diagrams and explain why the curves moved as drawn.

B) Draw an SRAS/LRAS/AD diagram and a Keynesian Cross, a.k.a. 45° diagram, for an economy at full employment. Illustrate an increase in the money supply. Explain why the curves moved as drawn. What happens to the GDP and to the price level?