

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 some students have a class after your class.

1) (12 points) Answer EITHER Part A OR Part B.

A) Suppose GDP is 12,000.00, depreciation is \$300, indirect business tax is \$1,000.00, corporate taxes are \$1,100.00, personal taxes are \$1,500.00, contributions to Social Security are \$500.00, net US income from abroad is \$800, retained earnings are \$700.00, and government transfers to individuals are \$600.00.

Calculate NDP, NI, PI, and DPI. Show all work and briefly explain why you did what you did

B) Suppose the consumption function is given by $C = 3,000 + 0.9(Y-T)$. If a person's disposable income is \$50,000, then what is that person's MPC, APC, MPS, and APS. Show all work and if there is not work to show, then state how you got it.

2) (12 points) For EITHER *establishing a system of property rights* OR *developing an educated population*, how does that help economic development?

3) (16 points) Answer EITHER Part A OR Part B.

A) In almost all economics courses, we assume that faster growth of real GDP per capita improves the well-being of the country. Give two reasons why faster growth may be harmful to the country. Explain how faster GDP growth may result in harmful effects on society.

B) We use real GDP per capita as a measure of the well-being of the citizens. However, does not measure all economic activities. Give two examples of economic activities that are left out for different reasons. Explain why they are left out.

4) (20 points) Answer EITHER Part A OR Part B.

A) Draw the 45° diagram, a.k.a. the Keynesian Cross diagram. Use it to illustrate an increase in government spending. Given your diagram, what is the value of the government spending multiplier? Explain why the curve(s) moved as drawn and how you estimated the value of the multiplier.

B) Draw the SRAS/LRAS/AD diagram. Use it to illustrate an increase in capital. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?

5) (40 points) Answer EITHER Part A OR Part B.

A) Draw the SRAS/LRAS/AD diagram and the 45° diagram, a.k.a. the Keynesian Cross diagram. Use both of them to illustrate a decrease in income tax rates. Explain why the curve(s) moved as drawn. What happens to GDP and price levels?

B) Suppose a country is in a recessionary gap. Draw the SRAS/LRAS/AD diagram and the 45° diagram, a.k.a. the Keynesian Cross diagram for that situation. How can you tell you drew a recessionary gap? Use both of them to illustrate how the economy would correct itself if it was left alone.. Explain why the curve(s) moved as drawn. What happens to GDP and price levels?