

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

A) I recently bought \$2000 worth of Xerox and I paid \$8.95 in commissions. How much did GDP go up? Which part of GDP changed? Explain your logic for both parts.

B) What are the problems with high, but correctly anticipated, inflation? Explain your logic.

2) (10 points) For EITHER increased savings OR opening an economy up more, explain how that quality will help the economy to grow faster in the long run.

3) (14 points) All statistics have problems which make them less useful than we would like them to be. For EITHER using real GDP per capita to measure how well off a country is OR using the unemployment rate to measure the unused human resources, explain TWO problems with those measures. Make sure you explain why those are problems.

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

A) How can raising a tax rate on anything bring in less revenue? Explain your logic with a numerical example.

B) What are some bad effects from faster economic growth? Explain how growth causes them.

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

A) Suppose the table to the right is the current tax schedule. Find the total taxes paid, average tax rate, and marginal tax rate for a person earning \$50,000. Show all work.

B) Suppose that at the start of the year the CPI was 400 and people were expecting a 8% inflation rate. At the end of the year, the CPI was 420. What was the inflation rate? Show all work. Who is hurt by the inaccurate prediction? Explain your logic.

Bracket	Rate
\$0 - \$20,000	15%
\$20,000 - \$40,000	20%
\$40,000 - \$90,000	25%
>\$90,000	30%

6) (18 points) Answer EITHER Part A OR Part B.

A) What is the problem facing Social Security? Some people say we should raise the Social Security tax rate. How will this reduce the problem? Would you use that method to reduce the problem? Why or why not?

B) What is the problem facing Social Security? Some people say we should means test for the benefits. How will this reduce the problem? Would you use that method to reduce the problem? Why or why not?

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

A) Suppose that consumers bought \$700 worth of goods, firms built \$300 worth of new buildings, the government paid \$500 worth of salaries, we exported \$80 worth of goods and imported \$90. The buildings deteriorated in value by \$5. The firms got \$20 worth of business subsidies, paid \$50 worth of indirect taxes, paid \$130 of corporate taxes, and had \$15 of retained earnings. People got \$25 of transfer payments from the government and paid \$400 worth of income tax. Use this data to calculate GDP, NDP, and NI. (Note, I am **NOT** asking for PI, and DPI so you will NOT need all of the information given.) If you need any information not given, assume it is zero. Show all calculations and BRIEFLY explain what you did.

B) Suppose a country has 1200 people working, 300 people not working but looking for a job, 400 stay at home parents, and 100 people who want to work but quit looking. Calculate the labor force participation rate and the unemployment rate. Show all work and briefly explain what you did.