

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) For EITHER the event in Part A OR the event in Part B, tell me how much GDP is changed. If part of the transaction is not included, explain why it is not included. If part of the transaction is included, tell me which part of GDP it is and why you chose that.

A) You buy an \$500 Apple computer. The importer paid Apple \$400 for it. (One reason I do not own an Apple product is that all of their products are made in China.)

B) You buy \$1000 worth of stock in Google and pay a commission of \$10.

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

A) When we calculate NI from NDP, we take NDP and add or subtract a few items. What are **three** of these items? **Briefly** explain why we add or subtract that particular item.

B) What are the four parts of GDP? Given an example of each part and **briefly** explain why it fits that definition.

3) (14 points) Answer EITHER Part A OR Part B.

A) Last fall, I saw a video clip of President Obama saying, "Until every person who wants a job has a job, I have not done my job." Prove that using his definition of doing his job, it is impossible for him to do his job. What should the unemployment rate be? Explain your logic.

B) Suppose a country has 1000 people of working age. 540 of those people have jobs. 60 people do not have jobs and are looking for jobs. 350 people are stay at home parents. 20 people are in jail. 30 people do not have a job, would like to be working, but are not looking for a job. Calculate the labor force participation rate and the unemployment rate. **BRIEFLY** state why you included or excluded each group of people.

4) (14 points) For EITHER *creative destruction* OR *limiting protectionism*, state what that means and how it helps an economy to grow.

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

A) What is the biggest negative effect caused by faster economic growth? Explain how economic growth causes that problem and why you feel that is a big problem.

B) Why is people saving money important for economic growth? Explain how that leads to faster economic growth in the long run.

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

A) Suppose that at the start of the year the CPI was 600 and people expected the inflation rate to be 5%. If at the end of the year the CPI was 618, then what was the inflation rate and who was hurt by it? Show all calculations and explain your logic.

B) Suppose the nominal interest rate is 21% and the inflation rate is 10%. What is the real interest rate? Show all work. Why isn't the nominal interest rate equal to the sum of the inflation rate and the real interest rate?

7) (20 points) Answer EITHER Part A OR Part B.

A) What is the problem facing Social Security? What are the two big causes of this problem? One proposal for reducing the problem is to eliminate the cap on taxable income. How would this reduce the problem? Would you do that? Explain your logic.

B) What is the problem facing Social Security? What are the two big causes of this problem? One proposal for reducing the problem is to reduce Social Security benefits. How would this reduce the problem? Would you do that? Explain your logic.