

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 150 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 will be going to see the Dropkick Murphys concert in Pittsburgh on Tuesday March 8th (during spring break). However, if the concert was Tuesday March 15th, I would not be going. Use terminology and logic from economics to explain why I am going to the concert, but would not be going if it was a week later.
B) Use terminology and logic from economics to explain why you should not “pull an all-nighter” the night before an exam.

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

- A) All statistics have problems which make them less useful than we would like. How does GDP systematically underestimate the output of a developing country. Specify two ways.
B) We said that “limiting protectionism” is a key to development. What does that mean? How does that help a country to develop?

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

- A) Draw the PPF for smart phones and bananas. I heard there is a disease killing off the banana which is the most commonly eaten one. Illustrate the effects of this disease on the graph. Explain why the curve moved as drawn.
B) Find the opportunity costs of the third test booklet for the diagram on the back of this sheet. You can draw on the graph, but you must do all calculations in the test booklet. Show all work and briefly explain what you did.

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

- A) Suppose you pay for a \$200 textbook with a check. You also transfer \$400 from a savings account to your checking account. What happens to M1 and M2 for both events? Explain your logic.
B) Define *adverse selection*. Give an example from banking to explain your definition.

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

- A) When you do the second half of the final, you are implicitly assuming that Ricardian Equivalence does not hold. Explain Ricardian Equivalence and why you have assumed that it does not hold to do the second half of the final.
B) Suppose a person has a consumption function of $C = 100 + 0.8 \cdot (\text{disposable income})$. If that person has a disposable income of \$1000, then what is their MPC, APC, MPS, and APS? Show all work and if there is no work, then state how you found the answer.

6) (16 points) Draw the supply and demand for fire trucks. For EITHER the event in Part A OR the event in Part B, illustrate the effects of the event on the diagram. Explain why the curve(s) moved as drawn. What happens to the quantity of fire trucks sold and the price of them?

- A) The price of tractors used in farming increases.
B) The price of steel increases.

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

- A) What is the problem facing Social Security? What are the two long-term causes of this problem? One of the proposals for solving it is to increase the return on the Social Security fund. How would that be achieved and how would it reduce the problem? Would you use that as part of the plan to save it? Explain your logic.
B) Draw the supply and demand for a product like gasoline which causes a negative externality. Prove the market will not produce at the socially optimal point. How do economists say we should reduce the problem? Illustrate the effects of that on the graph. Explain why the curve(s) moved and prove that the socially optimal point is achieved.

