

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. I will not grade what is written on this sheet.

1) (10 points) Answer EITHER Part A OR Part B.

A) I know somebody who received a \$50 gift card for a store he does not like what they sell. He gave away the gift card to somebody because he was not going to use it. What was his opportunity costs of giving it away? Note, there are several correct answers, so what is important is how you argue.

B) Who is more likely to pick up a dime, a rich person or a poor person? Explain your logic using terminology from this course.

2) (14 points) For EITHER the event in Part A OR the event in Part B, illustrate the effects of that event on the PPF for corn and apples. Explain why the curve moved as drawn.

A) The best fertilizer for all crops is banned because it causes cancer.

B) A wood eating insect starts to devour all trees.

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

A) We said that limiting protectionism is a key to development. What does that mean? What are the two ways it helps the growth rate of GDP?

B) Suppose the CPI at the beginning of the year was \$700 and at the end of the year was \$721. What was the inflation rate? Show all work. If people had expected 5% inflation, then who is helped by the actual inflation? Explain your logic.

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

A) Monetarists assume there is a problem with lags with monetary policy. What are they and why does that mean we may not want to use counter-cyclical monetary policy?

B) The Classical School assumes that $MV=PY$ is true and makes two other assumptions about the equation. What are those assumptions? In their model, if the Federal Reserve increases the money supply, then what happens to the economy? Explain your logic.

5) (16 points) For EITHER the event in Part A OR the event in Part B, illustrate the effects of it on the supply and demand for cars. Explain why the curve(s) moved as drawn. What happens to the price of cars and the quantity of cars sold?

A) The price of steel desks goes down.

B) The price of the computers (which run the car) goes down.

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

A) Draw a line through the points (1,6) and (3, 2). Find the slope and the Y-intercept. Show all work and briefly explain what you did.

B) Draw the supply and demand for a product like a paper which creates a negative externality. Explain how your graph shows a negative externality. Use the graph to prove that we will not have the socially optimal output of paper. Do **not** worry about correcting the problem.

7) (16 points) Answer EITHER Part A OR Part B.

A) What is the problem facing Social Security? What are the two causes of the problem which mean it will get worse for the next decade? One proposal to reducing the problem is to eliminate the current \$118,500 cap on taxable income. How would that reduce the problem? Would you use that as part of your solution to save Social Security? Explain your logic.

B) All statistics have problems with their definition which yields them less useful than we would like, this is especially true in macroeconomics. What are the problems with calculating the unemployment rate and the CPI? Explain your logic.