

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 ONE of the following pieces of data, tell me whether it is used in calculating GDP, going from GDP to NDP, going from NDP to NI, going from NI to PI, or going from PI to DPI. Also tell me if it is added or subtracted and why.

- A) income tax payments
- B) Social Security checks written by the government.

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

- A) What are the two reasons why starting to save for retirement today means you can save less per month than if you wait ten years to start saving for retirement. Briefly explain both reasons.
- B) Why should saving equal investment?

3) (12 points) For EITHER “letting creative destruction run its course” OR “limiting protectionism,” explain how that helps the economy to grow in the long term. Make sure you state what the phrase means.

4) (16 points) Draw the SRAS/LRAS/AD diagram starting in equilibrium. Illustrate the effects of EITHER the event in Part A OR the events in Part B on the diagram. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?

- A) The price of electricity decreases.
- B) A new technology is created which improves production for much of the country.

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

- A) What value did we initially give to the government spending multiplier? What does that number mean? When we calculated the government spending multiplier, we made several assumptions. What did we assume about imports? If we relaxed that assumption, what would happen to the size of the government spending multiplier? Why would it have that effect?
- B) Suppose a person’s consumption function was given by $\$1500 + 0.7 * (\text{disposable income})$. How much are their MPC, MPS, APC, and APS if their income was \$10,000? Show all work. If there is no work, state how you got the answer.

6) (16 points) Draw the Keynesian Cross Diagram, a.k.a. the 45° diagram. Illustrate the effects of EITHER the event in Part A OR the event in Part B. Explain why the curve(s) moved as drawn.

- A) The income tax increases.
- B) The MPC decreases.

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

- A) Draw the SRAS/LRAS/AD diagram. Illustrate demand pull inflation. Explain why the curve(s) moved as drawn and why that is demand pull inflation.
- B) Two of the curves on the SRAS/LRAS/AD diagram are similar to other curves we discussed earlier in the semester. For **both** of them, what curve is it most closely related to? Explain why it is like that curve.