

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) We discussed four keys to development. Which of them is being discussed by Liam Gallagher (lead singer of Oasis) in the video he recently made and posted on YouTube? Explain your logic. He said, "In the '90s I had about four people doing it [making tea] ... Now you got to do it yourself these days, y'know what I mean? 'Cause these little smartarses download fuckin' tunes for nish. And they wonder why there's no real rock 'n' roll stars around—'cause this is the shit you got us doing, fuckers." (Quotation copied from Spin Magazine <https://www.spin.com/2017/09/liam-gallagher-making-tea-video/>)

B) President Trump wants to pull the USA out of NAFTA (a free-trade area) and has stopped us from joining the TPP (another free-trade area). Will these actions help or hurt our economy? Explain your logic.

2) (12 points) For EITHER the event in Part A Or the event in Part B, determine how much GDP increases. Explain how you reached your conclusion. Which part of GDP increases? Explain your logic.

A) You buy \$1000 worth of stock in Ford and pay \$10 commissions.

B) You buy a used car for \$4000, which cost the dealer \$2500.

3) (12 points) Answer EITHER Part A OR Part B.

A) Use terminology and logic from this course to explain why rich people don't clip coupons but poor people do.

B) Two hundred years ago, most things you bought required negotiating the prices. Now, almost nothing requires negotiating. Use terminology and logic from this course to explain why the economy changed.

4) (16 points) Answer EITHER Part A OR Part B.

A) What is the big problem with Social Security? What are the two long-term trends that mean the problem will get worse for the next decade at least? One proposal to reduce the problem with Social Security is to raise the retirement age for those more than a decade away from retirement. How would that reduce the problem? Would you include that as part of your package to save Social Security? Explain your reasoning.

B) Suppose a person earns \$50,000. Using the table to the right, what is her marginal tax rate, total taxes paid, and average tax rate? Show all work. If there is no work, state how you got the answer.

Bracket	Rate
\$0 - \$20,000	10%
\$20,000 - \$40,000	20%
\$40,000 - \$100,000	30%
>\$100,000	40%

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

A) Draw the supply and demand for coffee. Currently, some coffee is harvested by children. Illustrate the effects of stopping children from harvesting coffee. Explain why the curve(s) moved as drawn. What happens to the price and quantity of coffee?

B) Draw the supply and demand for riding lawnmowers. Illustrate the effects of the price of motorcycles going up. Explain why the curve(s) moved as drawn. What happens to the price of lawnmowers and the number of lawnmowers sold?

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

A) Draw a supply and demand diagram for a good which has a price ceiling on it. Prove that the consumers are hurt.

B) Draw the PPF for shirts and telephones. Illustrate the effects of a large number of people killed by hurricanes. Explain why the curve moved as drawn.

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

A) Use the MS/MD diagram to prove the Fed cannot control both the money supply and interest rates.

B) Show a Keynesian liquidity trap on the MS/MD diagram. Explain why that could mean monetary policy won't work.