

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) Answer EITHER Part A OR Part B.

A) Both schools of thought assumed no money illusion. What does that mean

B) The two schools of thought had only one assumption different. What did each assume?

2) (10 points) Answer EITHER Part A OR Part B.

A) Explain why the AD curve slopes down.

B) The LRAS curve is similar to a graph we drew early in the semester. Which curve was it? How are they similar?

3) (12 points) When we discussed the government spending multiplier, we made some assumptions. For EITHER imports OR taxes, what did we assume about that variable? If we relaxed that assumption, what would happen to the size of the government spending multiplier? Explain your logic.

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

A) A hurricane destroys a lot of buildings.

B) Oil prices increase.

5) (16 points) For EITHER the explanation given in Part A OR the explanation given in Part B, explain how that may result in counter-cyclical fiscal policy's being less effective, completely ineffective, or possibly counterproductive. Do you think that is a strong argument most of the time? Explain your logic.

A) lags

B) crowding out.

6) (18 points) Answer EITHER Part A OR Part B.

A) Give an example of demand pull inflation. Use the SRAS/LRAS/AD diagram to illustrate the event you described. Explain why the curve(s) moved as drawn.

B) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of people expecting inflation to increase.

Explain why the curve(s) moved as drawn. What happens to the GDP, inflation, and unemployment rate?

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

A) What is the long-term problem facing Social Security? What two long-term trends will result in the problem getting worse for the next decade or even longer? One proposal to reduce the problem is to increase the retirement age. How would that reduce the problem? If you were president of the USA, would you include that as part of your solution? Explain your logic.

B) What is the long-term problem facing Social Security? What two long-term trends will result in the problem getting worse for the next decade or even longer? One proposal to reduce the problem is to means test the benefits. How would that reduce the problem? If you were president of the USA, would you include that as part of your solution? Explain your logic.