

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) Give an example of investment. Explain why that is investment in GDP calculations.

B) What are the two reasons why starting to save now for retirement will mean you do not have to save as much as if you waited ten years? Briefly explain how those reasons make a difference.

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

A) When we calculated that the government spending multiplier was 10, we made assumptions about other variables. What did we implicitly assume about taxes? If we relax that assumption, what will happen to the size of the multiplier? Explain your logic.

B) Suppose the consumption function is given by $C = 1000 + .8(Y-T)$. If a person's disposable income is \$20,000.00, then what is their MPC, MPS, APC, and APS? Show all work. If there is no work, state how you got the answer.

3) (14 points) The book lists four "keys to development". For EITHER "limiting protectionism" or "creative destruction", state what that means and explain how that helps the country to become richer.

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

A) State how the expenditure method of calculating GDP is done. State how the value added method of calculating GDP is done. Explain why they should give the same result.

B) If I gave you National Income, what would you need to add or subtract to get Personal Income? Explain how you would use that information and why we need to use it in the manner you described.

5) (18 points) Answer EITHER Part A OR Part B.

A) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of an increase in the population of a country. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?

B) Draw the Keynesian Cross, a.k.a. 45° , diagram. Illustrate the effects of a cut in government spending. Explain why the curve(s) moved as drawn. Given your diagram, what is the value of the government spending multiplier? Show all work and briefly explain how you got the number.

6) (32 points) Answer EITHER Part A OR Part B.

A) Draw the SRAS/LRAS/AD diagram and the Keynesian Cross, a.k.a. 45° , diagram. Illustrate the effects of an increase in the MPS. Explain why the curves moved as drawn. What happens to GDP, price level, and the unemployment rate?

B) Draw the SRAS/LRAS/AD diagram and the Keynesian Cross, a.k.a. 45° , diagram. Illustrate the effects of a decrease in the interest rate. Explain why the curves moved as drawn. What happens to GDP, price level, and the unemployment rate?