

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) Explain the difference between real and nominal GDP. Which do we use on our graphs?

B) According to a textbook I did not use, the full employment level of GDP grew at 2.5% from World War II until 1975, but only grew at 2% after that. Approximately, how long will it take to double at 2.5% and how long will it take to double at 2%? Show all work.

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 income 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 Net National Product, what would you need to add or subtract to get National 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 amount of capital in 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 income tax. 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 the GDP of our biggest trading partner, Canada. Explain why the curves moved as drawn. What happens to GDP, price level, and the unemployment rate?