

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 and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 16-point question should take 8 minutes. I will give a few extra minutes, but probably no later than about 5 minutes, i.e., until the end of the hour.

1) (12 points) For EITHER the GDP OR the inflation rate, explain a reason why that statistic is inaccurate.

2) (12 points) Do EITHER part A OR part B.

A) Given the table to the right, is consumer confidence a leading indicator? Explain your logic. The table came from CNN.com.

B) The percentage of women in the labor force has increased since the 1950s. What effect has it had on the full employment level of unemployment? Why?

3) (16 points) Do EITHER part A OR part B.

A) What is meant by “G” in the equation $Y = C + I + G + X$?

Give an example of something that will fit this category.

B) Give an example of “I” from the equation $Y = C + I + G + X$.

Why isn't buying a new share of stock part of “I”?

4) (18 points) Do EITHER part A OR part B.

A) Suppose that we are trying to find out how well-off the country is as a whole. Would you use GDP, NDP, NI, PI, or DPI? Why would you say that?

B) If GDP is \$10 trillion, depreciation is \$1 trillion, indirect business taxes are \$3 trillion, business subsidies are \$2 trillion, corporate taxes are \$1.5 trillion, transfers to individuals are \$0.5 trillion, personal taxes are \$4 trillion, and all other items are assumed zero, how much is NI? Show all work and state why you added or subtracted every item that is added or subtracted.

5) (18 points) Do EITHER part A OR part B.

A) Use the box on the right to calculate the CPI. How much inflation had there been? Show all work, and give a one-sentence explanation of what you did.

	P_t	P_0	Q_t	Q_0
Melons	\$2/melon	\$1/melon	50 melons	75 melons
Tea	\$4/lb	\$5/lb	4.5 lbs	5 lbs

B) Use the box on the right to calculate both the labor force participation rate and the unemployment rate. Show all work and give a one-sentence explanation of what you did.

Classification:	Looking for a job	Employed	Home maker	Discouraged
# of people	50	950	800	200

6) (24 points) Do EITHER part A OR part B.

A) What causes the per capita GDP to grow? Why is savings important to this?

B) How do a system of property rights and creative destruction both help countries to develop?

Are consumers telling us something?

Every drop in the Conference Board's consumer confidence index of 30 percent or more, spread over a year, has resulted in or accompanied a recession.

DATES OF CONFIDENCE DROP	TOTAL DECLINE	DATES OF RECESSION
Jun. '69 - Jun. '70	36.1%	Dec. '69 - Nov. '70
Oct. '73 - Oct. '74	49.3%	Nov. '73 - Mar. '75
May '79 - May '80	47.8%	Jan. '80 - Jul. '80
Aug. '81 - Aug. '82	33.6%	Jul. '81 - Nov. '82
Jan. '90 - Jan. '91	48.3%	Jul. '90 - Mar. '91
Sep. '00 - Sep. '01	31.9%	Mar. '01 - ?
Feb. '02 - Feb. '03	32.6%	?

Source for confidence data: Conference Board

Source for recession dates: National Bureau of Economic Research