

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 10-point question should take 5 minutes. I cannot give extra time because of the class which follows yours.

1) (10 points) Answer EITHER Part A OR Part B.

A) Opportunity costs are closely related to the supply curve. Explain how they are related.

B) How are opportunity costs related to the PPF? Explain the reasoning.

5) (12 points) Answer EITHER Part A OR Part B.

A) For EITHER *limiting protectionism* OR *letting creative destruction run its course*, explain why that will help the economy develop.

B) What is meant by a negative supply shock? What would be an example of one?

7) (12 points) There are three different economic reasons to not do stabilizing fiscal policy. They are Ricardian Equivalence, crowding out, and lags. Explain ONE of them.

3) (14 points) Answer EITHER Part A OR Part B.

A) For BOTH of the following statements, are they positive or negative statements? "Bush is a terrible President." "The average temperature in the earth has risen in the past decade." Explain your logic.

B) What are negative externalities? Why are they an economic reason for government intervention in the market.

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

A) Illustrate an increase in the price level on the supply and demand for money. Explain why the curve(s) moved as drawn. What happens to the variables on the two axes? Why does that happen?

B) Illustrate an improvement in technology on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to the variables on the two axes? Why does that happen?

2) (16 points) Answer EITHER Part A OR Part B.

A) Illustrate an increase in the price of wood on the supply and demand for books. Explain why the curve(s) moved as drawn. What happens to the price and quantity? Why did that occur?

B) Draw the supply and demand for clothing. Suppose the government was so stupid as to put a quota on the maximum production of clothing. Illustrate that on the diagram. Explain why the curve(s) moved as drawn. What happens to the price? Why did that occur?

4) (20 points) Answer EITHER Part A OR Part B.

A) What is the problem with Social Security? How could increasing the tax rate reduce the problem? Would you increase the tax rate? Why or why not?

B) What would GDP be if the following were the only events in the economy? For each item, briefly explain why you added, subtracted, or ignored it. You buy \$400 worth of Ford stock paying \$40 in commissions. The government pays a staffer \$30,000 in salary. A friend of yours buys a \$1000 used car from a dealer who paid \$450 for it. You buy a \$30 shirt made of Egyptian cotton.