

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) What are menu costs? Why are they a cost of inflation?

B) What is the difference between an *ad valorem tax* and a *specific tax*?

2) (12 points) For EITHER *promoting competition* OR *public goods*, explain why it is an economic reason to have a government.

3) (12 points) Answer EITHER Part A OR Part B.

A) Use the table to the upper-right to find the total taxes paid, the marginal tax rate, and the average tax rate for a person earning \$100,000 a year. Show all calculations, and if there are none, then briefly explain how you got the answer.

B) Give a numerical example that shows how increasing the tax rate could bring in less revenue. Briefly explain your example.

Income	Bracket
\$0 - \$20K	10%
\$20K - \$50K	20%
\$50K - \$90K	30%
\$90K - \$140K	40%
> \$140K	50%

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

A) What are the costs of high unemployment other than the fact that people are not producing as much nor are they earning as much? Mention at least two costs.

B) Name TWO of the four categories of unemployment. Give an example of each.

5) (14 points) Answer EITHER Part A OR Part B.

A) Suppose people had expected 14% inflation. If the previous year's CPI was 400 and this year's CPI turned out to be 440, then what was the inflation rate? Who would gain from this and who would lose? Explain your logic.

B) Suppose there are 100 million people of working age in the USA. Suppose that 54 million have jobs. 6 million do not have jobs but are looking for them. 38 million do not have a job and do not want one because they are full-time house keepers. The remaining 2 million do not have a job, but are not looking for a job. What is the size of the labor force? What is the unemployment rate? What is the labor force participation rate? Show all calculations and briefly explain what you did.

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

A) We use real GDP per capita (per person) as a measure of how well off a country is. What are some problems with doing this? Explain at least three reasons.

B) What is investment? Suppose that you found a bank account which will pay a guaranteed 40%. If you put money into that, would it be an investment? I bought my house in 2003, but it was built in 1967. Would my purchase be considered investment? Explain your logic for both all parts of this question remembering that this is macroeconomics.

7) (20 points) Answer EITHER Part A OR Part B.

A) What is the problem facing Social Security? How would eliminating the salary cap reduce the problem? Would you use that to solve the problem? Explain your logic.

B) What is the problem facing Social Security? How would raising the return reduce the problem? Make sure you mention how the government could increase the return. Would you use that to solve the problem? Explain your logic.